

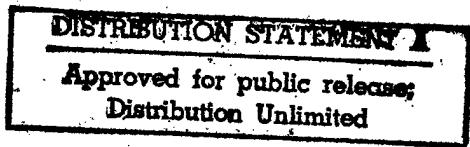
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Opinion on Inability To Contain Corruption Aired
Beijing ZHENLI DE ZHUIQIU [PURSUIT OF TRUTH] in Chinese No 3, 11 Mar 92 pp 30-31

[Article by Xiao Huijing (5135 8396 7234), affiliated with the Xingzhou branch of the Hubei Provincial People's Procuratorate: "Why Is It So Difficult To Curb the Crimes of Corruption and Bribery?"]

[Text] In March 1982, the Standing Committee of the NPC made the "Decision on Severe Punishment of Criminals Who Seriously Undermine the Economy." Subsequently, a struggle to crack down on economic crimes, severely punish bribery and corruption, and promote honest government was launched across the nation. A decade has gone by, and it can be said that this struggle to curtail corruption, rectify party tendency, and change society's common practices has had important effects. Yet irrefutable facts also prove that the momentum of economic crimes has not slowed. In particular, crimes of corruption and bribery among state workers have been increasing year after year. In some localities, the situation has gone from bad to worse. The masses are very concerned.

Why, despite the 10-year vigorous war on economic crimes, is the crime of corruption and bribery still so rampant today, and why are so many criminal elements so blatant? In the author's opinion, from the viewpoint of the legal system, the following are the main reasons:

1. The legislative aspect: Overall, although China has the laws and regulations that promote honesty and punish corruption, we have not perfected the legal system, and our honest-government policy has not yet become law. There is no strict separation of government from enterprises and officials from businessmen, nothing to stop the commercialization of power, and no system to turn state cadres into "public servants." At the same time, the existing laws are crude and even contradictory in places, and as a result, there are many problems in law enforcement. For example, the "Criminal Law" is harsher on the crime of corruption than any other economic crime. The legislative rationale behind this is to punish job-related crimes severely, but the relevant legislative and judicial explanations fail to sustain this spirit; instead, corruption and bribery are treated more leniently and lightly than most other crimes. Meanwhile, some acts of corruption and bribery are directly linked to "local policies" and are even condoned by some "local policies." Furthermore, some units have not drawn up a full set of rules and regulations and are not properly managed. Objectively, inadequate laws and management loopholes indulge the corrupt and provide the criminal elements with an opportunity.

On the other hand, the existing laws and regulations are inadequate in the struggle against corruption and bribery. In the wake of the implementation of the policy of reform and opening up, China's economic and human relationships and people's ideologies and concepts have changed drastically. Criminal activities involving state

workers taking advantage of their position to solicit and accept bribes have also changed dramatically. New situations and new problems are constantly emerging. In practice we often run into situations where no laws seem to apply or where the law is unclear, and those who enforce the law either have no law to go by, or they do as they please, or sometimes they simply have to leave things as they are.

2. The law enforcement side: To curb corruption and promote honesty, law enforcement must be strict and violations must be prosecuted. In the struggle to crack down on economic crimes, the judicial departments are hampered by many factors which undermine the proper handling of the cases. First, some leaders of party and government departments will flaunt their own subjective will and in just one word reject the judiciary's correct opinion, making it difficult for the judicial departments to exercise their independent function. This phenomenon of "putting power above the law" is quite prevalent in many localities. Second, the judicial departments have their own problems. The struggle against corruption and bribery and the policy of reform and opening up and enlivening the economy are intertwined. Many of the problems are related to certain state policies, and for this reason, some judicial departments have many reservations and are not willing to go all out. Third, the crackdown is not vigorous enough, and there is a tendency to be too lenient. In the corruption and bribery cases already examined and dealt with, most have been handled with leniency. This is apparent in the large percentage of cases that never went to court and the number of people given suspended sentences. Four, those who work in the judicial departments are ill-qualified. Today, a large proportion of those who work in the judicial departments do not have the political or professional qualification to fight against corruption and bribery. Many cases have been unsuccessful or have been mishandled for this reason.

3. Interference by unhealthy tendencies: The practice of pulling connections and interceding based on personal ties is rampant. Generally speaking, most criminal elements involved in the crimes of corruption and bribery have some power in their hands and have a fairly complicated network of social connections behind them; some even have inseparable ties with people in the judicial departments. When they are "caught red-handed," their friends would pull all kinds of tricks, like the eight fairies who each have their own magical power. They either do something to obstruct justice or flagrantly protect the criminals, or they somehow intercede on the criminals' behalf, making it difficult for the law enforcement people to enforce the law strictly or investigate the cases. Another important factor is that some units do not report crimes and try to handle things on their own. They are either worried that reporting the crime would force them to hand over the bribe money or loot to the Treasury, which means the unit would suffer economic loss, or they are afraid that once exposed, it would tarnish their record. Some even worry that their "talented person" would be arrested, thus depriving the unit

of other opportunities to make money. Another reason is that there is no coordination among the relevant departments. We cannot rely on the judicial departments alone to fight against corruption and bribery. We also need the cooperation and support of the party discipline unit, the political discipline unit, and the units where the cases originate. Today, the relationship among many functional departments has yet to be straightened out. Every department is doing things its own way; some are shirking responsibilities, and as a result, it is not unusual that some cases drag on forever or some criminals are simply fined instead of punished.

4. Enthusiasm for reporting crimes has waned: In recent years, there have been repeated incidents in some localities of attacks, harassment, and even murder of people who reported crimes. Also, some citizens who reported crimes have not received prompt and proper attention. As a result, some who know about economic crimes are not willing to get involved, and the judicial departments have no witnesses or evidence. As a result, the criminal elements are more brazen and have nothing to fear.

There are many other reasons why it is so difficult to curb the crimes of corruption and bribery. The above are several from the perspective of the legal system. If we focus on those areas and come up with the proper remedies and devise some effective measures, we can reduce the crimes of corruption and bribery to a very large extent.

Xu Weicheng Examines Society's Spiritual Needs

92CM0253A Beijing SIXIANG ZHENGZHI
GONGZUO YANJIU [RESEARCH IN
IDEOLOGICAL-POLITICAL WORK] in Chinese
No 3, 8 Mar 92 pp 3-6

[Article by Xu Weicheng (1776 1919 6134), deputy secretary of the Beijing Municipal CCP Committee: "Make Spiritual Civilization Activities More Penetrating and More Substantive"]

[Text] Since the national conference on the construction of spiritual civilization in 1990, the issue has received nationwide attention. Party committees and governments at all levels have begun "tackling with two hands." Moreover, the construction of spiritual civilization has proved very popular among the masses. This shows that the construction of spiritual civilization is consistent with the interests of the general public and meets their needs and that the orientation of our work is correct.

Today we have accumulated a wealth of positive experiences in the construction of spiritual civilization across the nation, the most outstanding of which to my mind are as follows. First of all, we should widely attract the masses to participate in activities relating to the construction of spiritual civilization. In this socialist nation of ours, the masses are the master. Our material life is created by the masses themselves. So is our spiritual life. So do not regard the people simply as the passive objects of education. The more broadly we mobilize public

participation, the more enthusiastic the masses will be and the better the state of society will be. This is also a form, in fact a major form, of democratic life in a socialist country like ours. For example, when southern China was hit by severe flooding, the entire population took part in disaster relief in every way. During the Asia Games, the masses in all Beijing took the initiative to come out to keep order on opening day because they made it their own concern. In China, political power is the people's own political power. The people themselves take part in running the state. We must put this advantage to use in practical work and build an impregnable fortress of the masses. Learning a lesson from the Asia Games experience, numerous localities have worked to attract the public to participate in the construction of spiritual civilization in a variety of ways. This is of vital importance.

Second, ideological and moral construction has received more attention than ever before. In our construction of the spiritual civilization, we go beyond formalism and appearances to stress its ideological and moral content and take pains to use socialist morality to conquer the corrupt ideologies of feudalism and capitalism. Overall China is economically, politically, and socially stable. The socialist spiritual civilization is going forward and the social climate is getting better. Herein lie the very achievements of the construction of spiritual civilization. Certainly there are still many things in society that are unsatisfactory, a fact which has led some comrades to doubt the results of the construction of spiritual civilization. This raises the question of how one analyzes a situation. Some say these days you cannot get anything done without sending a present. This does happen. Yet we cannot generalize about everything in society based on that. There was flooding in the south. All sectors across the nation enthusiastically participated in disaster relief of their own volition; countless people donated money and clothes. Are we to say that this came about because people in the south threw dinner parties and sent gifts? So, we can see that there is still a mainstream in society. In all fairness, the social climate has indeed changed in many ways after more than 2 years of work. In the past, if you sang the praise of the CPC and socialism in some places, you would be ridiculed. No longer. These days it is acceptable to publicly advocate the spirit of self-sacrifice. Needless to say, in reality people do differ in their level of consciousness. Some people merely swim with the tide and pay lip service to the idea of self-sacrifice. But the dominant trend is to think that it is glorious to give of oneself. The presence of this dominant trend makes a big difference. Nowadays social opinion again frowns upon much unethical behavior. Not that all evildoers have disappeared. Some have turned over a new leaf, some have not, and some are getting worse. Be that as it may, the situation has begun to change. The evildoers have now been put on the defensive. In looking at a situation, including the situation in the construction of spiritual civilization, we must look for a trend and see which forces are on the way up, which are on the way down. There are two sides to a

thing. If you fail to see the problems, you will be blind to the goals and tasks of going forward. If you fail to see the achievements already won, you will miss the foothold from which to move forward and lack the confidence to move forward. Lenin said that we must take great care to discover and nurture young seedlings. That is the only way in which the new society will triumph.

Right now the situation in the construction of spiritual civilization is quite good on the whole. However, there is a problem—uneven development. Another has to do with finding a way to combine its ideological and moral part with mass activities even more successfully, more imaginatively, and more organically. There are “tangible” as well as “intangible” targets in the construction of spiritual civilization. What form does an activity take? How many people participate? The answers to these questions are fairly obvious and are readily verifiable. We can say they are “tangible.” In contrast, the ideological and moral contents are more “intangible” and not readily verifiable. How many trees have been planted on the roadside? That can be worked out easily. The ideological state during the tree-planting process, on the other hand, is not as obvious. How to strengthen the ideological and moral part of the activities, I think, is precisely an issue we now need to examine and explore.

While there are grim aspects to the international situation today, by and large this is a favorable opportunity for China to concentrate on putting its own house in order. We must be on guard against the danger of peaceful evolution pushed by hostile Western forces, a danger which has become a real one. If we do not gear up for it mentally and plan accordingly in our work, we are bound to suffer. Still, the enemy is not yet knocking on the door and we are not yet in a state of panic. Not because the imperialists don't want that to happen, but because they could not make it happen as a result of barrier after barrier in their way. Within the United States, contradictions have been on the rise and will continue to do so. Not too long ago, 350,000 workers marched on Washington, demanding that the government “pay more attention to domestic affairs.” According to AFL-CIO [American Federation of Labor-Congress of Industrial Organizations] calculations, the standard of living of American workers has dropped 12 percent. The number of homeless in the United States has reached 3 million. The U.S. economy is in decline. Government debt exceeds \$3,000 billion, or more than \$10,000 for every man, woman, and child. The man on the street too is living on borrowed money, with private debt nationwide totalling \$3 trillion. American corporations also are indebted to the tune of \$5 trillion. Together the three kinds of debt amount to \$11 trillion. America's GNP is \$5.4 trillion, yet its combined national debt is twice that amount. Can people live like that? Moreover, the contradictions among the imperialist nations are intensifying. Imperialist nations do not form a monolithic bloc. A shared ideology alone is not enough to unite them firmly. The reason is that the goal they pursue is making money. A capitalist economy is one driven by

the pursuit of profit and more profit. The capitalist is capital personified. The bourgeois politician is the political representative of capital personified. The Americans want to make money. The British want to make money. So do the French. So do the Japanese. Inevitably there will be conflicts. There is no way conflicts can be avoided. Also on the rise are contradictions between imperialist nations and the Third World. Since the 1980's, the imperialists have stepped up their exploitation of the Third World, draining \$506 million each year from developing nations in a reverse flow of capital during the latter half of the 1980's. Developed nations have been forcing the Third World to undertake “economic reform” and practice so-called “democratization” in each and every way. Result: ever-growing social turmoil, mounting poverty, and exchange of increasingly unequal values. In Africa, tens of thousands of people starve to death everyday. Can this go on forever?

While the world today is unstable, there is still much room for China to maneuver. Today the possibility of another invasion by a joint eight-nation expedition does not exist. Nor is it possible for them to prevent China from doing business with foreigners through sanctions. That is why we believe now is a favorable opportunity for us to concentrate our energies on putting our house in order.

The domestic situation is very good; China is politically, economically, and socially stable. The drive to improve the economic climate and rectify the economic order has been highly successful. During the drive, reform has made headway. In foreign trade, subsidies have been abolished, but exports have risen. Over the last 2 years, commodity prices in the nation have undergone many important reforms. Even grain prices, which we dared not touch for years, have been adjusted. But it was in the disaster relief work following the flooding that the entire people's centripetal force and cohesiveness burst forth with all its might. Everybody came to realize that we could not do without socialism or the leadership of the CCP and that we should give of ourselves to others. The relations between the party and the masses, between the military and the people, and between the cadres and the masses have improved significantly. Changes in the Soviet Union also have taught some people a lesson. Even the masses would not want to live the kind of life that the Soviet people are living today. Everybody concluded that all things considered, they are better off with stability and unity, building socialism with Chinese characteristics.

A much-discussed topic these days is that large- and medium-sized state enterprises have not been sufficiently revitalized. There is certainly room for improvement in China's large- and medium-sized state enterprises. The central government has even convened a working conference specifically for this matter, the decisions of which must be carried out in earnest. On the other hand, we must guard against suggesting that large- and medium-sized state enterprises have no redeeming qualities. Right now people are happy with life as it is.

This, however, does not stop some from shaking their heads as soon as the economic situation is mentioned, complaining that there is just no way to run large- and medium-sized state enterprises properly. Actually these two perceptions are mutually exclusive. Large- and medium-sized state enterprises are the pillar of the national economy and the main source of government revenues. If they are in such bad shape, how can we possibly live well? In our publicity work, therefore, we must base our assessments on facts. Suppose the profit of an enterprise has fallen dozens of percentage points. This certainly is a serious problem that needs to be fixed. At the same time, however, we must see that payments by a state enterprise to the state consist mostly of taxes, with profits making up only a very small portion. Loan repayments and interest payments to the banks do not come from enterprise profits. On the whole, therefore, we cannot say that the margin of profit of large- and medium-sized state enterprises is nearly all that bad, much less that large- and medium-sized enterprises show no sign of life.

Further improving large- and medium-sized state enterprises can be done. The central government has now adopted 12 policies relating to the external conditions and 10 to the deepening of internal reform. Some comrades say that whether we are improving the external conditions or deepening internal reform, what counts most is people. I entirely agree. All things being equal, if you send an outstanding cadre to an enterprise, put together a good team, and mobilize the masses, what used to be an unprofitable enterprise will stop losing money and turn a profit instead. Our state enterprises are not predestined to fail. These days state enterprises commonly experience some difficulties. What is fundamentally wrong with them? The fact that social economic reform has indeed been deepening over the past few years, that enterprises must orient themselves to the market. Unfortunately, for historical reasons, many of our enterprises have never been genuinely oriented to the market. For an enterprise, the process of adapting to the market is necessarily a painful and difficult change. The change is now under way, a sign of which—and we can all feel it—is a well-stocked market and an endless parade of new products. An enterprise cannot be oriented to the market without turning out marketable popular products. Thus far there are still some enterprises that have not made the transition or are experiencing difficulties in the transition. We must help them. We must be fully confident about the development of the economy.

The current international and domestic situations also present an opportune moment for the construction of spiritual civilization. To begin with, it has the attention of party committees at all levels. Comrade Jiang Zemin emphasizes “tackling with two hands” in just about every speech he makes. So do all local leaders. We should be more lively, more thorough, and more effective in our work in the future. Here I would like to put forward some ideas.

First, in the future we should stress the ideological and moral construction aspect even more and do so regularly. Over the last few years we have organized many activities, some of them regular, some short-lived. Now there seems to be an urgent need to regularize such activities. Regularization means not waiting for the authorities above to hand down a plan or assign a task, but instead having the mechanisms working all the time.

Ideological work has weakened somewhat in many rural areas in the last few years. There is a host of reasons for this, but a major one is insufficient collective economic muscle. Having said that, we must pause and recall how the communists operated in the countryside in the early days. Members of the underground party carried no money or rice with them. The masses followed them all the same and revolutionary activities were a resounding success, culminating in an armed revolution and the establishment of a political regime. Why? Some people say that it was because of the old society, where there was opposition to oppression. Things, they say, are different in the new society today. Then let us take another example. In the last two years, religious forces have been on the ascendancy in the countryside. The preachers do not come bearing rice. But the masses give them money to build houses so that they can preach. The preachers' words carry no mandatory force. But the masses come and listen to them every week. Why? Some say this is because the common people believe in God. Yet the fact of the matter is that in the early days of liberation in the 1950's, people in the countryside still believed in ghosts and spirits. Why then didn't religion do as well in those days? I think this is one issue that bears some research.

Echoing the peasants, some comrades refer to listening to the pastor's preaching as listening to him “talking about principles.” What “principles” do they enjoy listening to? Nothing other than showing respect for the elderly and filial piety to one's parents, exercising restraint under frustrating conditions, husband and wife living in harmony, not stealing, and not raping or seducing women, etc. While the pastor's words are not mandatory, they flock to hear him anyway. His words satisfy a spiritual need. Man often feels a host of worries, not all of them amenable to solution. At a minimum, however, he needs some comfort. A comrade saw a female college student seeking divine guidance at a temple. The comrade asked her why. She said, “Many times I went to the leader of my unit with several suggestions, but never have I got any answer. I kowtowed once to Buddha and he gave me a response—a bamboo slip.” This is psychology we are dealing with here and I think we are fully capable of doing even better than the preachers. Today a large number of cities have established what they call a “youth hot-line.” When an elementary or high school student has a problem he cannot discuss with those around him—he has had an argument with his parents, has been found cheating in an examination, has a crush on a female classmate but lacks the courage to write her a love letter—he can phone the hot-line anonymously to talk to a guidance counselor

trained in psychology, who will give him some suggestions. In Laiyang, a director of a women's representative assembly did a good job in family planning publicity. Asked about her experiences, she said, "Some women did not make their beds after waking up in the morning, so I explained to them why beds should be made promptly. Some women just piled up the bowls in the pot after a meal, so I told them the advantages of washing the bowls right away. Some girls had a messy face, so I explained why they should wash up quickly. Rural women are pleased to hear all that, which makes it easier for me to tell them about family planning."

On one occasion Comrade Mao Zedong was criticizing cadres like us who are in propaganda work. He said, "Do not assume that others understand the things you understand, or that others do not understand the things you don't understand. We can only work based on the needs of our subjects." This particular director, for instance, understood very well the real needs of local women, which explains why her work was so effective.

Moral education should become an important and regular part of the construction of spiritual civilization and permeate many practical affairs. For example, there is this old Chinese saying, "Go out, inform; come back, see," which means that when a daughter or son goes out or comes back home, he or she should inform his or her parents. We can collect a couple of stories and gather together a group of young people to make them see the light: Parents are racked by anxiety when their children go out. When the unexpected happens and the parents don't know where their children are, things can get more complicated. By mentioning facts like these, we may help people establish some rules of conduct. Another approach is to explain a principle with reference to events in real life. For example, these days the birth of a child is enough to send some young couples running around in circles. They do not know how to change a diaper or what to do when the baby has a fever or develops a chill. It is at moments like these that we can explain to them that we realize how much we are indebted to our parents only after we become parents ourselves. We can help people recall how their parents "waited upon" them when they were small. Some things are appropriate for mass discussion. A good example is the debate in Shenzhen on readiness to take up the cudgel for a just cause. Somebody heard a woman yelling for help but ignored it, not knowing that it was his own daughter being attacked by hoodlums. Certainly a couple of discussion sessions alone are not going to turn everybody into a good Samaritan, but they will slowly help build up a healthy atmosphere. Right now everybody is staging "festivals." Most of these festivals have economic themes despite a cultural veneer. Is it possible to increase their moral content somewhat? Qufu, for instance, organizes a Confucius festival each year. It is only right that people get to see something about the moral climate in Confucius' own hometown. We may set a different requirement each year. This year we may teach the public what to say when someone approaches

them for directions. That way we can standardize the language for these kinds of questions and answers. Next year we can come up with a different requirement, such as ridding Confucius' hometown of shoddy or bogus commodities.

Second, we must intensify the construction of fronts of spiritual civilization. When an activity is over, leave something behind to make a difference all the time. And fronts are not limited to places like activity rooms. On this issue we must widen our horizon. At a meeting in Shashi, I specifically made the point that a newspaper should be put in every room in every hotel, every guest-house everywhere. Subsequently the Central Propaganda Department, the Ministry of Commerce, and the National Tourism Administration made a joint announcement on this matter. The execution of the announcement, though, seems to have been half-hearted. Tens of millions of people are on the move in China. They stay at hotels and guest-houses. At night they have nothing to do and would read a newspaper from the first page to the last, including the advertisements. This is the psychology of people on the road. Putting a copy of a newspaper in every hotel room, therefore, helps build up a locality's economic ties and is commonly done by the hotel industry around the world. Supplying a room with a newspaper is as essential as providing it with bed-sheets, towels, toilet paper, and soap. Modern society is a society of information; one cannot exist without information. Thus providing the traveler with newspapers is a prerequisite for the modern tourist industry. This is a matter for the comrades in the spiritual civilization office of every locality. They should require spiritual civilization units in the tourist industry to subscribe to newspapers for travelers. If a unit fails to do that, it will not be designated as a spiritual civilization unit. If the unit has been so designated, it will be disqualified for failing to meet the requirement. Once we do this, we will have created a front where newspapers will be making a difference every day.

The Central Propaganda Department and other departments have jointly developed a "sing-a-long collection of songs." There are now 2,000 to 3,000 sing-a-long music parlors across the nation, where 90 percent of the songs played are from Japan, Taiwan, or Hong Kong. Even songs of mainland origins have taken on a Hong Kong flavor and acquired a rock-and-roll beat. In recent times, family karaoke machines are also selling briskly. So there is an acute need to write good songs to occupy the front. This explains why we decided to invite the various parties involved to put together a collection of the most melodious songs, Chinese and foreign. The first collection consists of 500 songs, and the second collection will include another 500. So far over 200,000 videocassette tapes and more than 2 million cassette tapes have been sold. But more needs to be done to enable it to reach all the way into the enterprises, the villages, ocean-going steamers, prospecting teams, well-sinking teams, oil-fields, tree farms, and sentry posts at the border. A lot more work needs to be done.

The wedding ceremony needs to be looked at. We are right to oppose extravagance and waste, but the results have been minimal. Why? Most people, in my opinion, feel that wedding formalities by themselves are inadequate and not psychologically satisfying. Ever since monogamy became a part of human existence, marriage has been surrounded by elaborate ceremonies. Monogamy needs to be protected and recognized by society. Marriage is a major event in life. We need to tell relatives and friends, to announce to the whole world that a new family is being established. Can we satisfy this legitimate demand? Find a room, 20 square meters in area. Decorate it tastefully with streamers and balls made of strips of colored silk. Hang a district government sign on the door. This office is to handle marriage procedures exclusively. Invite an elderly comrade who enjoys high prestige and commands universal respect to be the chief witness at a wedding ceremony. Take pictures of the newlyweds under the national emblem. Or videotape the entire ceremony. In short, make the event grand and solemn. Also suggest that the newlyweds bow to their elders and to each other at the ceremony. Another idea is to buy a piece of red silk and ask every guest to put his or her signature on it. Yet another idea is to plant a tree to commemorate the wedding. Set aside a corner in the local park and name it "mandarin duck forest" or "joint heart tree."

There are so many things one can do. These days protect-law-and-order organizations are springing up in many places. They, too, can be a front for spiritual civilization. The tourist industry has made some progress in the last couple of years, but the explaining has yet to catch up. Historic relics and beautiful sights are not being fully appreciated. Can't something be done? Consider developing an informational cassette tape on the Imperial Palace and make it available for lease to visitors as they enter the palace along with a cassette player. Other places can come up with other ideas. To provide information on tourist spots in every locality is an important way to build up the front for spiritual civilization.

Third, spiritual civilization activities must be well integrated with economic work. Make a greater effort to put the proletariat and working people to better use as the leader. Economic construction is at the heart of everything. Everything we do must facilitate it. There is a wealth of positive experiences across the nation, such as staging festivals with an economic theme and a cultural flavor. The cultural standard has risen, which also would spur economic development. Another example involves efforts in an enterprise to improve the quality of its workers and enhance their sense of being the master so as to expedite and ensure economic development. Recently I visited Yantai Cannery, which used to be a money-loser but has now turned losses into profits. An important reason it has been able to do so is that every worker watches the bottom line carefully and tries to increase the plant's profits at every turn. Quite remarkable. This is a case where workers are genuinely in control.

We also must bring out the leadership of the proletariat in spiritual civilization. In China's socialist spiritual civilization, the proletariat and the working people are the chief player and the proletariat is the leading class. Organize and train a cultural corps, an artistic corps, a creative corps, and a critical corps from among the workers. Their job is to comment on social phenomena as well as review artistic and literary works.

Also to be incorporated in the construction of spiritual civilization is the dissemination of scientific and technical knowledge and the improvement of the level of technology. There are significantly more technical training activities in 1991 than in previous years as such activities receive renewed attention. This is a very good sign. It is difficult to ensure the quality of many products without raising the workers' level of technology and improving their technical discipline and sense of technology. At the Laiyang Power Machinery Plant, I noticed that the machine tools and products being made were all kept in perfect order, not a single one was out of place. As a result, I felt more confident about the products of this plant. All too often the quality problems of machinery products are caused by bumping and knocking about. Foreigners have their own solution; their assembly lines are so well designed that any bumping or knocking is eliminated, something many of our enterprises have not yet managed to do. Their only hope is conscientious workers. Provided we truly raise the workers' level of consciousness, provided workers become the master, and provided the level of technology is constantly going up, there is absolutely no reason why Chinese enterprises cannot compete with their foreign counterparts.

Property Rights in People-Owned Enterprises Viewed

92CM0249A Beijing ZHENLI DE ZHUIQIU
[PURSUIT OF TRUTH] in Chinese
No 3, 11 Mar 92 pp 2-7

[Article by Zhu Qing (2612 7230): "What Are the Marks of Well-Defined Property Rights?"; first paragraph is ZHENLI DE ZHUIQIU editorial note]

[Text] ZHENLI DE ZHUIQIU published Comrade Zong Han's [1350 1383] article "Several Opinions on 'Property Rights'" in its No. 11, 1991 issue. It explained the causes of many "property rights" problems and raised the question of whether we should use Western economic theories on property rights to guide China's reform. In this issue, we have published Comrade Zhu Qing's article "What Are the Marks of Well-Defined Property Rights?" It expresses the author's opinion on whether property rights in China's people-owned enterprises are well-defined. In our view, important theoretical and practical questions regarding the restructuring of the economic system, such as the "property rights" issue, need to be clarified through "contention of a hundred schools of thought." We welcome those with differing opinions to take part in the debate.

In the current discussions of the restructuring of the economic system, some comrades have suggested that the core of the reform of enterprises under the ownership by the whole people system lies in solving the property rights problems. In their opinion, the people-owned enterprises are plagued by an "unclear and ill-defined property responsibility system," "ill-defined property rights," "vague property rights," "absence of real owners." They say that these are the main causes of enterprises' production and management problems, and therefore, in order to enliven the large- and medium-sized enterprises, we must make a breakthrough in terms of property rights in state-run enterprises, or in other words, we must change the nature and the format of property rights under the current ownership by the whole people system. As to what other ownership system we should opt for, opinions vary.

Property rights mean ownership rights; they refer to the ownership system. We all know that revolution means changing the ownership system, or we should say that the goal of our revolution is to change the ownership system. "All revolutions up to now have been for the sake of protecting one form or opposing another form of ownership system." (*The Complete Works of Marx and Engels*, Vol 21, p 131) Thus, from the political point of view, the issue of changing the property rights in the people-owned enterprises is an important issue regarding what to do with the results of the revolution in China and in what direction we should push the reform. For this reason, we should adopt a cautious attitude.

Putting aside the question of whether the ownership by the whole people system should be replaced by a different system, what we want to discuss first is, is "ill-defined property rights" a good enough reason for changing the ownership system? What are the marks of well-defined or ill-defined property rights? On what basis do we say that the property rights in a property are well-defined or not well-defined? Of course, when it comes to specific signs, it is a matter where "the benevolent see benvolence and the wise see wisdom"—different people have different opinions, and it is even possible that because people have different ideas, they may arrive at exactly opposite conclusions. Here we are only looking at one school of thought.

In my opinion, to determine whether the property rights are well-defined, we should examine three characteristics:

One, ownership right as a right is a legal concept; it is the law's recognition of factual ownership (possession.) Marx said, "the true basis of private property, that is, possession, is a fact; it is an unaccountable fact and not a right. It is because society has given actual possession legal provision that actual possession becomes legal possession, and only then are there private properties." (*The Complete Works of Marx and Engels*, Vol 1, p 382) In other words, since the beginning of the class society, possession has been a "legal relationship." Thus, to

determine if the property rights in a property are well-defined or not, we must first find out whether the law clearly delineates the ownership of the property rights. If it is clearly delineated, then the property rights are well-defined. With respect to the property rights in the people-owned enterprises, Article 6 of China's Constitution states, "The basis of the socialist economic system of the PRC is socialist public ownership of the means of production, namely, ownership by the whole people and collective ownership by the working people. The system of socialist public ownership supersedes the system of exploitation of man by man; it applies the principle of 'from each according to his ability and to each according to his work.'" Article 7 states, "The state economy is the sector of socialist economy under ownership by the whole people; it is the leading force in the national economy. The state ensures the consolidation and growth of the state economy." Article 12 states, "Socialist public property is sacred and inviolable. The state protects socialist public property. Appropriation or damage of state or collective property by any organization or individual by whatever means is prohibited." These three articles in the Constitution are very explicit about the nature of the people-owned enterprises (the socialist nature) and property rights in these enterprises (ownership by the whole people). There is nothing "unclear" or "vague" about it, and there is no "absence of owner." The question raised by those who complain about "vague property rights" is a question about rights, which is a legal question, but they have exactly forgotten to look at the issue from the legal point of view.

The jurisprudence related question here, of course, is not "metaphysical or legal fantasy" (in Marx' words.) Rather, it is the law's recognition of an economic relationship as a fact. The ownership by the whole people system is an economic relationship which the Chinese people have forged after several decades of bloodshed and struggle and after moving three "big mountains" [imperialism, feudalism, and bureaucratic capitalism]. It has been in existence in China for more than 40 years. What the Constitution has recorded is not just an economic relationship but the result of the people's struggle.

Two, an economic entity's property rights are manifested in the economic benefits, and we must look at whether it is clear as to who owns and who is in control of the value (profit) realized by the economic entity. This determines the character of a property right. If ownership of the profit is clear, then the character of that property right is clear. For example, if I ate a peach and nobody objected, it would imply that the peach was mine to begin with. A part of the value realized by China's people-owned enterprises is used on expanded reproduction and the other part is handed over to the state in the form of taxation, and the state in turn spends the money on the people. The ownership of the value realized by enterprises is legal, and the payment procedure also complies with the financial laws and regulations. In other words, the relationships on these two levels are well-defined. Unless you feel that enterprises should not

pay taxes to the state or that the financial procedure is illegal, there is no reason to suggest that enterprise property rights are not clearly defined.

Three, the ownership of a property right may be well-defined, but if the owner of that property right fails to personally or send an agent to administer or manage that right, under certain conditions it is indeed possible for that right to be "inexact" or "vague." But this is not the case in the people-owned enterprises. There are specific legal representatives in enterprises to exercise the property rights. Usually the legal representatives are the factory directors; state-authorized contractors are also legal representatives. Enterprises' legal representatives are appointed by the state and elected by the workers' congress. It is perfectly legal for them to represent and to manage those enterprises. The existence of enterprise legal representatives and the existence of management activities carried out by the legal entities fully demonstrate that enterprises' property rights are clearly defined. Some people suggest that the "whole people" in the "ownership by the whole people" is too abstract and that it is ownership by the whole people in name but not in fact. Those who suggest this either do not understand or they do not recognize the propriety and the legality of representation by a legal entity. Looking at the actual situation, there is absolutely nothing abstract about the management of enterprises by the whole people. In managing enterprises, the legal entities must accept the state's plans and financial arrangements and comply strictly with the state's financial system, and representatives from the state's auditing, commodity prices, and industrial and commercial departments regularly monitor and check on these enterprises. These no doubt demonstrate that the state represents the whole people in managing the property rights in enterprises. Workers' congresses also examine and amend their respective enterprises' management plans and supervise and evaluate the management activities, and this is also one form of management of enterprise property rights by the whole people. Today, one thing people are often complaining about is that enterprises have too little power to make decisions, that the state is in too much control and is being too rigid, and people are demanding changes. This alone tells us that the charge of "inexact property rights" does not tally with the facts.

There is a reason why some comrades have suggested that property rights are "ill-defined." It is because some state-run enterprises indeed are poorly managed, losing money, or are not generating much profit, and when the people look for the causes, they look to the property rights. The fact of the matter is, the only question property rights can answer is who has the right to a property and the profit it generates. It is but a question of who has the legal right to this property. But no matter who owns the property, it can still be mismanaged, and it can still be inefficient. Capitalists, too, go bankrupt; state capitalist enterprises can still be auctioned off. We cannot blame enterprise mismanagement on property rights. Entrepreneurs and theoreticians are debating why

China's enterprises are running into difficulties. Many comrades point out that the problems have to do with the poor industrial structure and some bad industrial policies, the poor regional distribution of industries, unfair social allocation, enterprises' failure to implement the policy of distribution according to work, enterprises' excess social burdens, or because of the weight on their backs because enterprises constantly go after higher output value and so on. All these problems are important problems which must be solved in future reforms. At the same time, it is obvious that these problems have nothing to do with property rights. If we insist that these problems are caused by property rights, then we should come up with some facts and convincing arguments, but so far there is no scientific proof. All we have is the much-touted idea that "property rights are unclear" and the "new thinking" which is "rich in theoretical dialectics and is therefore much admired." But the issue debated using this kind of "new thinking" is in fact no longer a question of whether enterprises' existing problems are caused by property rights; instead, we are getting arguments that only under a system other than the people-owned system can enterprises' problem be solved. The property right issue is but a scapegoat.

Some comrades feel that if we change the property rights in the people-owned enterprises, we can solve all the problems. This argument is premised upon the idea that privately-run enterprises or state-capitalist enterprises do not have administrative or management problems. Yet we all know that this premise is not valid, and in fact it is more realistic to say that all enterprises have their own problems. Even more important is that when these comrades explore this issue, they often avoid the two major consequences of changing the property rights in the people-owned enterprises: 1) It is only because the value generated by enterprises belong to the state that the latter can make economic plans and can, without being controlled by international capital, serve the needs of the people and concentrate the financial resources on major capital construction projects such as the Qinshan Nuclear Plant, Pingshuo Coal Mine, and Tarim Oil Field and other projects that are the nation's lifeline, so that we can enhance the nation's economic strength and reinforce national defense and lay the foundation for raising the people's economic and cultural standards. If the property rights in the nation's large- and medium-sized enterprises are changed, some or most of enterprises' profit will be turned into dividends and transferred into private hands, and the state will lose the right to centralize the financial resources, then the Ninth Five-Year Plan and the Tenth Five-Year Plan will vanish into the thin air. Some people may say that there is no ownership by the whole people in the well-developed capitalist nations today, but they still have a strong industrial system. This line of thinking ignores the capitalist nations' historical process of primitive accumulation. For example, there is a close link between Japan's becoming a great capitalist industrial nation and the approximately 1.18 billion taels of silver taken from China under the Maguan Treaty and the Shenchou

Treaty which became their primitive accumulation, and it also is closely related to their colonization of Lushun-Dalian and their economic plundering in various parts of China to establish their primitive accumulation. Subsequently, Japan occupied China's three northeastern provinces and robbed us of huge amounts of grain, timber, soybean, and coal to shore up their capitalist system. Today's imperialism is in fact still carrying out this form of capital accumulation under various disguises. Can China do that? Obviously not. Even if some very ambitious Chinese capitalist had wanted to do that, they have not succeeded in contemporary Chinese history, and today, the historical conditions have undergone fundamental changes, which makes it even more impossible. 2) If there is a large-scale, radical change in property rights under the ownership by the whole people system (because some people think that this is the direction of reform), then it will be inevitable that China will have a new capitalist class or a class that has close ties to international capital. This change in class structure will lead to monumental political change and political upheaval. The above-cited articles in the Constitution will have to be amended, and the whole superstructure will undergo radical changes. This is not mere speculation but is the inevitable consequence of a change in property rights.

In fact, those who talk about "ill-defined property rights" have drawn the conclusion (some explicitly and some not so explicitly) that only if some or all of the property rights in the people-owned enterprises are handed to private parties can property rights be clearly delineated. Then the issue they have raised is not whether the property rights are clearly defined or not but who owns the property rights. If indeed we were looking at the question of whether the property rights are well defined or not, we should ask why property rights in the people's hands are not defined but are clearly delineated in private hands, and what does it mean by clearly-defined property rights? If property rights in the hands of the whole people are not defined, suppose we were to change the state-run enterprises into shareholding enterprises with the state in control of some of the shares and private parties in control of the remaining shares; the property rights in the shares controlled by the state would still be unclear and only complete privatization could clarify the property rights. Yet in capitalist societies, the capital in state-capitalist enterprises belongs to the state and not private parties. Are the property rights in those assets clearly delineated or not? If state-capitalist property rights under the capitalist system are well-defined but socialist ownership by the whole people system's property rights are not clear, how do we explain it? Some comrades suggest letting property rights companies manage the shares of state-run enterprises. Why would letting a company manage the property rights make those rights clear?

Recently I came across an article by a British economist and an Australian economist who commented on some of our comrades' viewpoints on the state-run enterprises'

"vague property rights." It is an interesting article, and, not wanting to misconstrue the meaning, I have quoted the article word for word. The two scholars said that in China someone wrote, "Property rights in China's state-run enterprises are vague; nobody cares. Implementing the shareholding system would clarify the property rights." This argument has turned the facts upside down. In the West, enterprises used to be owned by the bosses. Property rights were clear. In the last several decades, most large enterprises have converted to shareholding companies. Everyone who owns a share is a boss (shareholder). The shares are scattered, and property rights in enterprises have become 'vague.' There are enterprise owners, and there are enterprise managers. If China truly separates ownership rights (the state still owns the large enterprises) from management rights, it can still improve its enterprises; there is no need to adopt the shareholding system to 'muddle up' enterprise property rights." It went on to say that if the large enterprises were to implement the shareholding system, "to whom would they sell the stock? Who would buy? Shareholding companies first appeared in Venice. The purpose was to raise capital and absorb society's idle funds, mainly business capital. Today's Chinese workers do not have the spare money to buy stock, and if the shareholding system is implemented, one, shares are issued to the workers, or two, shares are sold to other enterprises. What is the point?" "Some people in China feel that if the workers own shares of their own enterprise, they would be more caring. That is sheer fantasy. Whether a worker (or a factory director or manager) worries about his enterprise or not depends on how much the latter pays him. As for stocks, he can buy and sell. If prices are going up, he would buy, and if price are going down, he would sell. In the end, Enterprise A's workers own shares of Enterprise B, and Enterprise B's workers own shares of Enterprise C. Which enterprise would they worry about? Does it matter?" "Some Chinese scholars say, ups and downs in the stock market exert tremendous pressure. It forces enterprises to constantly improve management. This is but sheer speculation and conjecture. Stock markets in the West rise and fall mainly for psychological reasons and because someone is taking advantage of this psychology to speculate in the market (in Chinese it is *chaomei-chaomei*.) Today, stock prices in the West far exceed the real value. Company A's stock price can fluctuate throughout the day. Do this enterprise's production and management really change so much in a day?"

These two foreign scholar's viewpoints are not without merits. At least, the argument that state-run enterprises must adopt the shareholding system based on the theory that "property rights are vague" still needs a lot of explanations. Of course, this does not mean that China's economic entities should not implement the shareholding system. China's society has many economic components. It may be necessary for some economic components to adopt the shareholding system. As for the state-run enterprises, on the premise that "ultimately, the socialist public ownership system is still the primary

system" (*Deng Xiaoping On the Party*, p 230), how to implement the shareholding system is also an important question which requires further study and testing.

The above-cited Marxist viewpoint that the origin of property rights "is an unaccountable fact" is worth noting. What is meant by an "unaccountable fact" is that a privately-owned property is created by someone's labor, and the owner paid nothing in the form of labor to possess this property. This kind of ownership is unreasonable and is a barbaric, high-handed behavior. There is no explanation for the creation of private property, and similarly there is no reasonable explanation for the historical existence of the private ownership system. This is because in the history of evolution of the private ownership system from barbaric plunder to sophisticated exploitation, no matter how many theories have been manufactured in defense of capitalism, there is no way to explain why the capitalists have the right to exploit the workers, why they should own the workers' labor without paying compensation, and why they should live in luxury on the workers' blood and sweat.

But the emergence of the ownership by the whole people system in history for the very first time provided a possible explanation for "possession"; it provided a reasonable and humane economic relationship. Everything is created by work. The workers create the means of production, and the ownership of these means of production belongs to all the working people, and the people-owned enterprises only have the right to use and the right to manage these means of production; the value generated by enterprises still belong to the whole people. Simply speaking, it means what the workers create belongs to the workers. There is no forcible possession, no exploitation, no deceit, and no hypocrisy. This is as it should be; this is reasonable. Isn't this ownership system the most humane system in history? Isn't this the best reason for its existence? Moreover, this system is the result of objective social-historic development. Social development may follow a torturous path, but everything that is reasonable and everything that is humane will eventually replace anything that is unaccountable and anything that is inhumane. Otherwise, there would be no progress in human society.

Today people who advocate changing the public ownership system into a private ownership system are in fact trying to change a fact that can be explained into what Marx called "an unaccountable fact." They are trying to change an existing, rational economic relationship into an unreasonable economic relationship, a humane economic relationship into an inhumane relationship. On 8 February 1849, on trial in Cologne, Marx spoke before the court and pointed out the dangers of protecting the old legal system. He said, "the purpose [of protecting the old system] is to turn the personal gains of people who are no longer in a ruling position into the gains of people who are in a ruling position" and that "it lets those legislators who specialize in protecting personal gain hold on to their political power. This will lead to abuse of state power to forcibly submit the interests of the

majority to that of the minority. This will always create a conflict with people's immediate needs, obstruct exchange and industrial development, and set the scene for social crisis in the form of a political revolution." (*The Complete Works of Marx and Engels*, Vol 6, p 292) The property rights issue being discussed here is also a jurisprudence related question; what Marx talked about was the consequence of protecting old laws, but if we reject the new legal rights relationship which is established on the basis of a new economic relationship—that is, the property rights of socialist ownership by the whole people system—won't the result turn out to be exactly like what Marx had just described? The difference between them is but a difference in perspective. Marx's words are applicable to the various viewpoints that reject the property rights of the ownership by the whole people system. When Marx said, "it sets the scene for social crisis in the form of a political revolution," it was as if he had predicted the political upheaval and the Beijing counterrevolutionary rebellion in 1989. There is a lesson to be learned here.

CPC Department Holds Party Building Forum

HK0306093992 Nanchang Jiangxi People's Radio Network in Mandarin 1100 GMT 26 May 92

[Excerpt] From 23 May to today, the CPC Central Committee Organization Department's DANGJIAN YANJIU [PARTY BUILDING RESEARCH] magazine office called a forum on party building in Jinggangshan city of this province.

The meeting participants studied in depth the spirit of the full meeting of the CPC Central Committee Political Bureau and the speeches made by Deng Xiaoping during his south China tour and studied and explored ways to make party building serve comprehensive and accurate implementation of the party's basic line, reform and opening up, and economic construction.

Zhao Zongnai, deputy head of the CPC Central Committee Organization Department, attended the meeting and gave an important speech.

(Zhang Zhuwu), editor in chief of the CPC Central Committee Organization Department's DANGJIAN YANJIU magazine office, presided over the meeting.

Zhao Zongnai pointed out: We must not only grasp party building but also concentrate on it. We should promote reform and opening in depth by strengthening party building so as to make the economy a success. On the one hand, this requires that we make party building truly help implement the party's basic line, carry out reform and opening up, and push forward the economy, and, on the other hand, reform the party's work concerning party building.

Our comrades responsible for party building should study economic issues, the new situation and problems cropping up in building primary party organizations, and the problem concerning the use of cadres. Comrade

Deng Xiaoping has reiterated the principle which requires us to select cadres who are more revolutionary, younger, better educated, and more professionally competent and the principle of attaching equal importance to ability and integrity in using cadres. We must unswervingly carry out these principles.

We must also improve the work concerning intellectuals. On the one hand, we should encourage them to conscientiously study Marxist theories and join in social practice to find out about China's actual conditions. On the other, we should create favorable working and living conditions for them and give full play to their wisdom and talent.

We must improve work concerning young cadres, boldly use young cadres, and make a breakthrough in [words indistinct] young people.

Efforts should be made to recruit new party members.

Zhao Zongnai pointed out in conclusion: Our cadres responsible for party affairs can draw a good deal of enlightenment from Comrade Deng Xiaoping's speeches: 1) We should study to achieve a better mastery of dialectics. 2) We must persistently carry out the principle of seeking truth from facts and overcome and oppose all kinds of formalism. 3) We must often study new developments and problems. 4) We must perform our duties honestly and efficiently. [passage omitted]

QIUSHI on Lecture Groups for Cadre Education

HK0405143092 Beijing QIUSHI in Chinese No 6,
16 Mar 92 p 41

[Short Commentary: "Strengthen Building of Lecture Groups for Cadre Theoretical Education"]

[Text] The building of socialism and reform and opening up in our country are proceeding further but are, at the same time, facing challenges from many aspects. The cadres' theoretical quality is essential in deciding whether our causes can be pushed forward smoothly and the challenges be dealt with effectively. For this point, we shall carry out education in Marxism-Leninism-Mao Zedong Thought in the whole range of the party extensively, penetratingly, and persistently.

According to our many year's experience, the education of cadres in the theory of Marxism-Leninism should uphold the principle of "walking on two legs." That is, on the one hand, to select and send cadres in a planned and organized manner and in different batches and at different times to suspend work and study in party schools of various levels; on the other hand, persistently organize the vast numbers of cadres to study at work. The two should be given equal emphasis and neither should be neglected. Education in party schools is undoubtedly very important but, in fact, the number of cadres who can go and study theory in party schools is limited and, furthermore, in view of one's lifetime, study in a party school is always short and temporary while

study at work is long lasting. Therefore, upholding cadre theoretical education at work has become a very important way to raise the theoretical level of Marxism for vast numbers of cadres.

To do a good job in cadre theoretical education at work needs a certain tutorial force. The tutorial work in cadre theoretical education at work in various places is mainly shouldered by lecture groups for cadre theoretical education. Lecture groups were first established in the 1950's and played an important role in the work of cadre theoretical education at that time. After the third plenary session of the 11th party congress, they were reestablished to meet the need of strengthening education of cadres at work on theories, situations, and tasks. During the past 10 years, lecture groups have done a great deal of work and played an important role in cadre theoretical education and particularly in the study of philosophy and socialist theories of recent years and have become good teachers and helpful friends of cadres at work in studying theory and become an important and unreplaceable force in our party's cadre theoretical education front. Under the current new situation, lecture groups should be further strengthened instead of weakened. Recently, on the basis of summarizing the work experiences of lecture groups in various places, the CPC Central Committee Propaganda Department promulgated and issued the "Work Provisions of Lecture Groups of Cadre Theoretical Education" and clearly defined the position, role, task, function, structure, and teams of faculty of lecture groups. In accordance with the "Provisions" requirements, lecture groups at all levels should strengthen the building of ideology, organization, work style, and rules and constantly improve their own quality and make particular efforts to raise political ideological quality and teaching skills of lecture group members. Educators must be educated first. Teachers and cadres of lecture groups can be qualified to undertake the heavy task of cadre theoretical education only after they painstakingly study Marxism-Leninism-Mao Zedong Thought and the theory and line of building socialism with Chinese characteristics and make efforts to improve their ability in analyzing and solving problems. Party committees and departments of authority at all levels should also further understand the position and role of lecture groups in cadre theoretical education and strengthen the leadership and administration of lecture groups and, in accordance with the "Provisions" requirements, check and supervise the lecture groups' work. As the specialized team of our party in carrying out the education of cadre on theory, situation, and task, the lecture groups' stability should be maintained and the groups should not be regarded as trivial, the existence of which makes no difference, and can abolished or merged at will. Efforts should be made to help lecture groups solve existing problems and various kinds of practical difficulties and create a favorable condition for them to make full play of their roles.

At present, party committees and government departments at all levels have begun to pay more attention to

cadre education on theory, situation, and tasks. Lecture groups have a lot to accomplish in their work and, under the correct leadership of party committees, they should revitalize their spirit and work hard and, at present, particular efforts should be made to grasp well the tutorial work of the study of the CPC's history and the Marxist party founding theory. The style of linking theory with reality should be further promoted and efforts should be made to constantly explore the characteristics and patterns of cadre theoretical education under new conditions and raise the effectiveness of cadre theoretical education and push cadre education on theory, situation, and task to a new level.

Internal Changes Way To Improve State Enterprises

92CM0252A Beijing SIXIANG ZHENGZHI GONGZUO YANJIU [RESEARCH IN IDEOLOGICAL-POLITICAL WORK] in Chinese No 3, 8 Mar 92 pp 10-11

[Article by the Heilongjiang Provincial CPC Committee's Organizational Department: "Using 'Three Sentences' To Seek Unity of Thinking and Smooth Relationships"]

[Text] Since the Fourth Plenary Session of the 13th Party Central Committee, we have paid attention to the Central Party Committee's advice to "give play to enterprise party organization's role as political nucleus, uphold and perfect the factory director responsibility system, and rely on the working class with our hearts and minds." We have used these three sentences to unify enterprises' party, political, and labor ideologies; to constantly strengthen the large- and medium-sized enterprises' party work; vigorously give play to the political nucleus role of the party organization; and to provide the organizational guarantee for enterprise development.

Use the Party Central Committee's "Three Sentences" To Unify Thinking and Understanding and Reach a Consensus in Improving Socialist Enterprises.

In practice, many enterprises were unable to solve three problems: One, some comrades felt that the party Central Committee's suggestion regarding the enterprise leadership system was a measure of expedience and suggested that we might as well simply go back to the old factory director responsibility system under the leadership of the party committee. Two, some felt that emphasizing the political nucleus role of enterprise party organization was a rejection of the factory director responsibility system. Three, relying on the working class with our hearts and minds was an issue most enterprises could not resolve. To deal with the above issues, we studied specific topics, held training classes, invited the advanced and the exemplary to talk about their own experiences, and utilized such methods as exchanging places between party and government cadres in enterprises and conducting two-way exchanges, and we guided enterprises' party, government, and labor leaders

in acquiring a thorough and correct understanding of these "three sentences." In June of last year, we convened a forum on the party's presence in the province's large- and medium-sized enterprises and reached a common understanding on the meaning of the "three sentences." After much work, most enterprise party and government leaders have reached a consensus and have clearly understood three things: One, they now understand that to develop good socialist enterprises, they must give play to the party organization's political nucleus role. Many factory directors have come to realize that if the party committee failed to guide enterprises' ideological and political thoughts and if they do not give play to the party organization's political nucleus role, it would be difficult for enterprises to hold fast to the socialist direction, factory directors would make mistakes in their decisions, it would be difficult for enterprises to stop the kind of thinking that could erode the party's leadership, and many industrial workers would drift away from the party. This is extremely dangerous. Two, they understand that the factory director responsibility system must be upheld and perfected. The party committee secretaries have learned that the implementation of the factory director responsibility system is an important result of the restructuring of the economic system, and it must be upheld. As for the problems we run into in real life, they do need to be solved, but we cannot go back to the old ways simply because of these problems. Today, we have an arduous task in trying to enliven the large- and medium-sized enterprises. The factory directors face many problems in directing production and management. Enterprise party organizations should try to understand the factory directors and support them and encourage them to courageously comply with the "Enterprise Law." Three, they understand that to rely on the working class wholeheartedly means respecting and giving play to the role of the working class as masters, paying attention to the workers' union, strengthening the leadership of the workers' congress, and reinforcing democratic management—this is imperative. Because most enterprise party, government, and labor leaders have a fairly good understanding of the "three sentences," they have laid a solid ideological foundation for everyone in enterprises to work together with hearts and minds. Many comrades in enterprises say, "The party, the government, and the workers must light a bonfire for the same goals they share and act in the opera together in the same party spirit."

Straighten Out the Work Relationship and Gradually Develop a Smoother Working Mechanism.

We feel that sorting out the ideologies is just the first step toward solving our problems. A more important step is to straighten out the work relations. To this end, we have dealt with the relationships in six main areas: One, sorting out the work responsibilities: To enable the party organization to shoulder its own responsibilities, we complied with the higher authorities' demands, worked at the local level, and gave full consideration to every

aspect of the work, and on that basis, we have defined the enterprise party organization's duties and responsibilities clearly and specifically, so that the party has a work system of its own and a definite procedure to follow, and it has contacts and can link up organically with the administrative departments and the mass organizations. Two, straightening out the relationships in organ installation: Previously, the installation of some enterprise party affairs and political work organizations was incongruent and improper, and in order to change that, the provincial party committee has asked that party organizations in large- and medium-sized enterprises reinstate the party discipline committee, organizational department, propaganda department, and party committee general office, as well as open party schools or after-hours party schools. We have gone deep into the localities to help enterprises improve those organs and strengthen the contingent of party affairs and political work cadres. Data gathered in 18 enterprises in 6 cities show that party affairs and political work organizations have increased 63.9 percent since the Fourth Plenary Session; political work personnel as a percentage of the total number of staff and workers has increased from 0.5 percent to 1 percent. Three, straightening out the composition of the party committee groups: Previously, most enterprise party committee groups in Heilongjiang were so poorly structured that they were unable to solve enterprises' major problems and could not function as guarantors and supervisors. For this reason, the provincial party committee has decided to increase the number of overlapping party and government group members in the party committee groups of large- and medium-sized enterprises from one or two to two or three people. Factory directors who qualify may be nominated by the party or approved by the higher-level party committees to join the party committee and serve as party committee secretaries. In actual practice, the results have been fairly good. It not only has enhanced the party committee's status in enterprises and increased its participation and supervisory capacity, but has also enabled the factory directors to look at various problems from the party's and the government's point of view. Four, straightening out the way the party committee carries out its supervisory function: In accordance with the "Enterprise Law" and Heilongjiang's actual conditions, we have defined what the enterprise party committee is suppose to guarantee and supervise and have stipulated that the party committee obtain regular work reports from the factory director and take part in essential meetings. They must go deep into the frontline to investigate and make studies by contacting the planning, finance, labor and capital, supply and sales and other administrative departments directly to obtain first-hand information. And they should give play to the supervisory function of the workers' congress. With regard to supervision, instead of supervising during or after an event, the party committee should assume supervision before the event; instead of leaving the work to the secretary, the whole committee should take part; instead of relying on the party committee alone to supervise, party organizations at all

levels and all party members should participate; instead of supervising everything, we should focus on the major issues. A survey of 18 enterprises in 6 cities show that currently, around 80 percent of the party committees are doing a good to fairly good job in helping with decision-making and providing guarantees and supervision. Five, straightening out cadre assignment: In view of the fact that some enterprises were uncertain about how to supervise the cadres properly and to uphold the principle that the party is in charge of the cadres, we followed the gist of the party Central Committee and came up with five specific duties the enterprise party committee should fulfill when supervising the cadres. After specifying those duties, we also focused on the situation wherein some enterprises followed irregular, ill-defined, and awkward procedures when appointing or dismissing cadres, and upon investigating and studying and repeatedly soliciting opinions from the relevant departments and enterprises, we have come up with a uniform mid-level administrative cadre appointment and dismissal procedure for enterprises. Specifically, the factory director may nominate someone, or the party committee may make a recommendation, and upon deliberation by key party and government leaders, the organizational and personnel departments will conduct an examination and report back to the party and government leaders. After reaching a consensus, a party committee meeting or expanded party committee meeting is held to discuss the matter and make a decision, and then the factory director may appoint or dismiss the person. At the same time, it is specified that enterprises' mid-level administrative cadres are centrally managed by the organizational department. More than 90 percent of the province's large- and medium-sized enterprises are inspected by the organizational department alone or jointly with the personnel department; around 60 percent hold party committee meetings or expanded meetings to discuss matters. Leading comrades in most enterprises agree that this is a proper and workable approach. Six, straightening out the systems. To ensure harmony between the party and the government, we have also guided enterprises to start out from practicality and have amplified and perfected the relevant systems, such as the party committee core group study system; the system of party committee secretary or deputy secretary taking part in factory affairs meetings, factory director work meetings, and factory management committee; the system of factory directors reporting to the party committee; the system of the factory-level party members leading the cadres' democratic life meetings, and the system of party, government, workers, and CYL joint association. Many enterprises have also adopted the "Party Committee Discussion Regulations" and "Regulations on Coordinating Party, Government, and Workers." By smoothing out relations in the above six areas, we have created the favorable conditions that will enable enterprises to launch party work in depth. Some enterprise party committee secretaries say that when the relationships were tangled, their work was going nowhere, but once the relationships were sorted out, everything was fine.

NATIONAL AFFAIRS, POLICY

QIUSHI on Theory of Essential Factors Value

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[Article by Zong Han (1350 1383): "Commenting on 'Theory of Essential Factors Value'"]

[Text] Some comrades in economic circles have been enthusiastic in the past few years in advocating the "theory of essential factors value [yao su jia zhi lun 6008 4790 0116 0237 6158]" of Western vulgar economics and belittling and negating the theory of labor value. What should be noted is that they have not merely related the disgusting views of Say and others, but do so with some renovations. They say that Marxist theory of labor value aims to criticize the capitalist system without studying the development of the productive forces; and today the development of the productive forces has risen to a primary position and so the theory of labor value should "give way" and "the focus" should be shifted to the theory of essential factors value. They say that 99 percent of the wealth in today's world is created by machine and the process of labor has changed from mainly employing living labor to using materialized labor; and "materialized labor in the role of labor forces creating value" has undergone "fundamental changes" and the role of natural resources is far greater than before and, therefore, the theory of essential factors value should replace theory of labor value. They also say that since the theory of labor value should be replaced by the theory of essential factors value, distribution according to work is no longer suitable and should be replaced by distribution according to essential factors.

Are these views tenable? What is hidden behind these views and what do these views attempt to prove? Here are some comments.

I.

The theory of labor value occupies an important place in Marxist economics theories. It is the starting point in the research of Marxist political economics. All of Marx's works on economics theories almost without exception touched on the theory of labor value. All of the economic relations of capitalism are established on the basis of relations of value. Value expresses the general social link between commodity producers. Without a clear idea of value, one cannot understand the nature of relations between people in capitalist system and the secret of capital. The theory of labor value was first put forth by classic bourgeois economists William Petty and others. However, because of class and historical limitations, they failed to understand the dual nature of labor and had no idea of what kind of labor created value and regarded value as merely the relationship between materials and therefore could not thoroughly carry on with the theory of labor value. It is Marx who first put forward the theory on the dual nature of labor and expounded the inner link between the dual nature of commodities with

that of labor and correctly explained value and the magnitude of value, the composition and form of value and social production relations hidden behind value and fundamentally solved the essential question of what value and its origin were and established a scientific theory of labor value. This is an epoch-making contribution by Marx to political economics. When Marx died in March 1883, Engels in his speech before the tomb of Marx said: Marx made two important discoveries in his life time and one of them is "the discovery of the production mode of modern capitalism and the special law of movement of the bourgeois society it created. The discovery of surplus value makes things clear." (*Selected Works of Marx and Engels* Vol 3, p 574) The theory of surplus value is established on the basis of the theory of labor value. Without the theoretical precondition of the theory of labor value and if value is not regarded as abstract social labor congealed in commodities, the relationship between capital and labor cannot be clarified and the origin of surplus value cannot be revealed, and subsequently the scientific conclusion that exploiters will certainly be expropriated and socialism will certainly replace capitalism cannot be reached.

Just because of this, ever since the establishment of the theory of labor value by Marx, the enemies of Marxism full of fear and hatred have attacked the theory of labor value with every available means. One of them is to use the theory of essential factors value to negate the theory of labor value.

As it is known, the originator of the theory of essential factors value was French vulgar economist J.B. Say. He raised a formula which Marx sarcastically called the "three-in-one formula": "land—rent, capital—interest, labor—wage." The tactic he used in the research on wealth is to put aside the relationship between man and man in the course of social production; he replaced the analysis on specific social formation, particularly the capitalist production with analysis on ordinary material production of mankind and used the research on general essential factors of material production—labor, capital (means of production) and land (natural resources) to replace research on social relations which combined these factors. He said "the value people give to material goods comes from the usefulness of the material goods," and "when people admit that certain thing has value, the basis is its usefulness." (Say: *An Introduction to Political Economics* published by the Commercial Press, 1963 Edition, p 59) He held that value is determined by usefulness and the use value and believed that magnitude of value is in direct proportion to the degree of usefulness. In this way, he confused value with use value and naturally reached the fallacy that essential factors of land, capital, and labor jointly created wealth. His purpose of doing so is very clear. He only wanted to prove that capitalists making profits with capital is justifiable, it is capital that creates profits, "workers already get everything they have created when they receive wages," exploitation does not exist at all in the capitalist system, and on the contrary, it is capital which feeds the workers.

Negating the theory of labor value will inevitably negate exploitation, class struggle, and the crisis and demise of capitalism. Marx pointed out sharply: "It is certainly more convenient to regard value as nothing specific. Thus, one can include everything into its category at will." (*Complete Works of Marx and Engels*, Vol 23, p 588) "Capital emerges in the form of independent source like value" and "the antagonistic nature" between labor and capital "is completely covered up and written off and antagonism between capital and labor disappears." (*Complete Works of Marx and Engels*, Vol 26, p 517) It is nothing but to express the ideology of the bourgeoisie in a "theoretical form" [xue li zhu yi 1331 3810 0031 5030] (Ibid, p 539) and are "nonsense and somnolence" of "economics professors employed by the bourgeoisie!" (*Das Kapital* Vol 1, p 189)

It is not that Marx did not pay attention to the development of social productive forces. On the contrary, each major progress in social productive forces including science and technology attracted his close attention and pleased him. (*Selected Works of Marx and Engels*, Vol 3, p 575) It was Marx who first scientifically revealed the position as foundation of productive forces in social development and its relation with production relations and reached the famous historic materialistic conclusion that "the production mode of material life conditions the whole process of social, political, and spiritual life. It is not human consciousness that determines their existence but to the contrary, it is their social existence that determines their consciousness." (*Selected Works of Marx and Engels*, Vol 2, p 82) While researching on the process of movement of capital, Marx also carefully observed all aspects of the use value of commodities as the bearer of value and their relations with value and pointed out that the process of labor was first the process of material transfer between man and nature and will naturally participate in the production of use value. Use value constitutes the material content of wealth and is the material bearer of value and the value of exchange is first expressed as the exchange ratio between one kind of use value with another kind of use value, etc. To date, as far as the depth and thoroughness of theory is concerned, Marx's studies on use value are far deeper than those of any vulgar economist. However, Marx's studies did not stop here. His distinction is shown in the fact that he did not carry out general studies on use value (that is mainly the task of natural scientists) and on the relation between man and material (that is mainly the task of economics of different sectors), but, through material and the relation between man and material, saw and thoroughly analyzed the relation between man and man, which was hidden behind material and use value, that is, the production relation. Therefore, he grasped the essence of things. He revealed the process of formation of the value of commodities in capitalism and the creation of surplus value and pointed out that living labor is the only source of value and thereby the only source of surplus value, whereas, capital appearing in the forms of machine and raw materials is nothing but "yeast" that strengthens value (*Das Kapital*, Vol 1, p 965), a means for absorbing

the surplus part of living labor, and "a pump for intaking surplus value (Ibid, Vol 3, p 965)." He started with the origin of value and the contradiction between laborers and capital and reached the conclusion that capitalism would inevitably be replaced by socialism is an objective law independent of man's will. Why do advocates of the theory of essential factors value talk only about the relations between man and material and do not talk about relations between man and man? Why do "they always disguise the relations between man and man as the social relations between material and material and between labor product and labor product?" (Ibid, p 53) Obviously, they simply want to cover up the nature of value and to write off the contradiction between labor and capital.

In building socialism today, our central task is to develop the productive forces. Is the theory of labor value not important in the course of building socialism? Should we replace it with the theory of essential factors value? Of course not.

In a certain sense, the theory of labor value and the theory of surplus value based on it are the most important theoretic basis for the emergence and development of socialism. It is the political economics based on the theory of labor value that theoretically answered the question why socialism will inevitably emerge and develop and why socialism will inevitably replace capitalism. Since the value of commodities, the surplus value and its changed formation—capital are created by labor and socialized mass production and capitalist ownership of means of production have given rise to sharp social contradictions, it is justifiable and an objective requirement for social development to expropriate the exploiters, eliminate private ownership of the means of production, and establish public ownership of the means of production. After the workers become masters of the means of production, they masters in the distribution of the fruit of labor.

It is under the guidance of Marxism that we established the socialist system and we can build socialism well only under the guidance of the basic theories of Marxism including the theory of labor value. The great significance of the theory of labor value is that it brings to light a truth: Who creates the value of commodity, is it the broad masses of laboring people, or a handful of people, or is it given by nature? Should we rely on the broad masses of laboring people or the "role automatically played by the essential factors" to build socialism? Practice has shown that only by firmly relying on the broad masses and instituting a system that can give full play to the intelligence and wisdom of the broad masses of laboring people including mental workers can socialism advance in full steam ahead, the natural resources be put into rational use and constantly developed, and the "essential material factors" such as the means of production and means of subsistence be produced incessantly.

In addition, socialist production is commodity production. In the process of socialist commodity production, the law of value still plays its role independent of people's will. The magnitude of value of socialist commodities is also determined by the average amount of necessary labor of the society. The exchange of commodities must be conducted in accordance with the principle of exchange at equal value and is regulated by market supply and demand. Marx said: "After the abolition of capitalist production mode and when social production is maintained, the determination of value still plays a governing role in this sense: the regulation of working time and the distribution of social labor among various kinds of production. Finally, related bookkeeping becomes more important than ever before." (*Das Kapital*, Vol 3, p 1116) The law of exchange at equal value compels us to correctly deal with the relation between value and use value and the relations between departments, regions and enterprises in terms of interest; to proportionally distribute and use labor in the whole society; to rationally use various resources; to pay attention to input and output; and to obtain maximum output with minimum input. To respect and correctly apply the law of value is an important condition for the constant development of the socialist commodity economy. Otherwise, we shall be punished.

II.

Advocators of the theory of essential factors value negate the theory of labor value. There are two major reasons for advocating the theory of essential factors value: One is that "99 percent of all the work of the world today is done by machine and the process of work is gradually changing from mainly using living labor to mainly using materialized labor."

The second is that the theory of labor value gives no consideration to "the rational utilization of natural resources and the compensation of value." Therefore, the conclusion reached is: "The theory of labor value which believes that only living labor creates value and materialized labor only transfers value" is outdated.

This is an imitation of the formula of "capital...profit," "land...rent," which Marx already criticized. The only difference is calling capital machine.

As an important component of the productive forces, machines, and equipment have undergone significant changes in their role of creating use value (there will be further changes), but their role in the formation of value has not changed. They transfer, but do not create, value. They are an important source of use value, but not a source of value. Having an understanding of this is conducive to gaining an understanding, in essence, of the role of machines and equipment and giving them full play in practice. Otherwise, people will be confused.

Machines and equipment play a tremendous propelling role in the development of productive forces. On the one hand, they can greatly improve labor productivity and create more and better use value. On the other hand,

they shorten the working time per unit product and lower consumption. Objectively, this demonstrates the function of giving repeated and long-term benefits with one input. Superficially, they appear to create both use value and value; but in fact, this is not the case. These functions of machines and equipment are bestowed by complicated labor and are nothing but an expression of materialized human intelligence, a kind of "living organ" of machines as living labor, and an extension of people's physical and mental power. The functions of machines only alleviate people's labor and make labor more convenient and more in line with the requirement of objective laws and people's requirements. They can only play their role in combination with other production factors and in accordance with research results and the predesigned procedures. Their role is determined by the extend of people's research and cannot go beyond it. They cannot create value and their own value is predetermined and will not "increase" (unless currency devaluates and their nominal value, that is, price, will increase; or their functions have improved because of the absorption of new labor). If they are not used, they are useless and their value will decrease. Only in the process of being used, can their value be awakened, preserved and transferred, but what is transferred is merely people's abstract labor materialized in it and not anything mysterious at all!

Machines and equipment are past labor and materialized labor. They have condensed the mental and physical power of workers engaged in scientific research and machine-building sectors. With the development of the productive forces, people's intelligence will become more developed, science and technology will make greater progress, and more machines and equipment and less living labor will be used in the process of production. Consequently, in the value of the total social product, the percentage of the portion created by complicated labor becomes comparatively, while the percentage of the portion created by simple labor and manual labor becomes smaller. This is externally expressed by an increase in the number of mental workers and a decrease of that of manual workers; an increase of the time of mental work and a decrease of that of manual work; an increase in the number of workers not directly involved in production and a decrease in that of workers directly involved in production; and in the process of direct production, an increase of the time spent on operating the equipment and a decrease of that of people's direct use of their hands. The result is as what Marx said, "Direct labor itself is no longer the basis of production." (*Complete Works of Marx and Engels*, Vol 46, p 222) This is caused by machines and equipment; but, in essence, this is caused by mental power. The mistake of the theory of essential factors value lies just in that it ignore this and talks only about the role of machines and equipment without mentioning where and how such a role originated.

In fact, work in which people employ technology and use machines is more often than not creative labor. To

employ advanced technology and equipment not only requires workers in the process of direct production to have a higher level of knowledge and quality of technology but also requires services of more workers engaged in complicated work outside the process of direct production. New value constantly added to the society is jointly created by these laborers. In the value of total social product, the part created by laborers in the process of direct production comparatively decreases, but the part created by laborers who directly serve social reproduction outside the process of direct production comparatively increases. Because of the increase of the percentage of complicated labor, the total amount of use value and the total amount of value of commodities gradually increase. Because of the increase of use value, the shortening of working time, and the lowering of consumption of materialized labor and living labor of per unit product, the value of per unit product will gradually decrease.

Further careful analysis will also reveal: The relation between machine-building and the use of machines is in fact the relation of labor exchange between laborers of different departments. Under the condition of socialism, machines and equipment not only express the relations between man and nature, but also reflect the relations of production, that is, the relations of sharing out the work and cooperating with one another between laborers who are engaged in the studies and manufacture of machines and those who use the machines, between producers of production conditions and those who use the conditions, and between those who manage the machines and equipment and those who operate the machines and equipment. When laborers in various departments exchange their own products in accordance with the principle of exchange of equal value, they in fact exchange labor. The role of machines in use is in essence the role of the labor of laborers who have created the machines and equipment. The transfer of the value of machines and equipment is in fact the transfer of the labor of laborers who have created the machines and equipment. Those who create machines create the precondition for the users of machines. The latter in turn provide the market for the former so the value of the machines can be realized and compensated and the latter also put forth new requirements for further development of the machines. Under the condition of capitalism, machine is in the hands of capitalists and machines are capital in the form of materials and the means to swallow living labor and to snatch surplus value. Labor creates value, but the surplus value is taken away by capitalists. But capitalists try their best to cover up this point, saying value is created by machines. As machines are capital, therefore, value is said to be created by capital and the surplus value brought about by capital. This confuses the origin of surplus value and covers up the antagonistic relations of exploiting and being exploited between capital and labor. The theory of essential factors value merely theorizes such a cover up.

Another argument of the theory of essential factors value in negating the theory of labor value is that the theory of

labor value is said to give no consideration to the role of nature, "does not deal with the rational distribution of natural resources and price compensation," and does not regard nature as the origin of value.

These ideas unreasonably link the importance of natural resources with the theory of essential factors value and completely separate the theory of labor value with the significance of theoretical guidance to socialist construction including rational utilization of natural resources. This shows shocking theoretical confusion and bias.

Natural resources and natural environment are always important conditions for social production irrespective of social formation. They not only are the object of labor, but also provide production with sites and environment. The conditions of natural resources and environment determine the production direction, production scale, industrial structure, and product quality of many sectors and even of the entire national economy and have an impact on the process of the production and circulation of products. Such impact on agriculture and basic industries is most apparent. It was because of this that Marx agreed to the idea of William Petty that "labor is the father of wealth and land is the mother of wealth." Marx pointed out: "Labor is not the only source of use value, that is, material wealth it creates," and "man has to work together with nature in production, that is, he has to change the formation of various materials. Moreover, in labor which changes formation of materials, he needs constant support from various natural forces." (*Das Kapital*, Vol 1, p 14) However, value is different. Natural resources, like machines and equipment, play their role in the process of production only as a means of production for people's labor. Their differences from machines are that machines are means of labor while natural resources are the object of labor; and machines condense human labor, whereas natural resources are unprocessed, do not include human labor, have no value, and therefore have no transfer of value. Why, then, is there differential rent (I)? That is caused by limited resources and monopoly of such resources. If resources are inexhaustible and if they are not monopolized, for instance, air as the material for making oxygen and sunlight as a natural drying agent that encompass no human labor, no differential rent will exist. Natural resources differ in quality, and superior and intermediate-grade quality resources are monopolized; if the individual value of products of monopolizers is lower than value, differential rent is formed. It is nothing but part of the excess surplus labor created by laborers with superior and intermediate-grade quality resources. Marx said: "Rent comes not from land but from agricultural products, or from labor, and from the price of labor products (for instance, wheat), that is, from the value of agricultural products and the labor input to land instead of coming from land itself." (*Complete Works of Marx and Engels*, Vol 26, p 158)

In a socialist society there also exists differential income caused by difference in abundance and location of natural resources. As different forms of ownership exist and

enterprises under ownership by the whole people operate independently and assume sole responsibility for profits and losses, enterprises which possess and use richer, better-quality and easy-to-exploit resources needs less labor to produce the same kind of products than other enterprises. The individual value of their products are low. If such products are sold at an average price, the income will be high and vice versa. Here, "natural power is not the source of super profit, but is only a natural base for super profit because it is the natural base of extra high labor productive forces." (*Complete Works of Marx and Engels*, Vol 25, p 728) Advocates of the theory of essential factors value say: "Land with better quality plays its role with greater natural power and provides more use value. This in reality means participation in the determination of value." This is tantamount to saying value is determined by use value and is illogical.

The task of theory of labor value is not to answer the question of relation between man and nature but a relevant question of relation between man and man in the process of production. Because of this, it has great significance in giving guidance to correct use and transformation of nature. Just think. How can nature be rationally utilized and transformed if the system of exploitation is not abolished and natural resources are not controlled by the working people? To obtain greater profits, developed capitalist countries seriously damaged natural resources in past. Today, they have extended such damage to the whole world. They obtain raw materials at low prices from developing countries and shift sources of pollution to them. Is this "rational deployment" of resources? Only if there are production relations appropriate for human production and livelihood can there be preconditions for "rational deployment" of resources. Besides, in determining product prices, regulating differential income, and making the decision on whether or not resources should be exploited and on procedures for exploitation and so on, the law of value plays its role without exception. Regarding the exploitation and transformation of nature, they are determined by our capacity in the complex type of labor and enthusiasm. Furthermore, without the guidance of the theory of labor value, it is impossible to properly handle the relations of interest between one enterprise and another, between town and country, and between one locality and another. Therefore, it is shooting an arrow without a target to accuse the theory of labor value of giving no consideration to the role of natural resources.

III.

One of the reasons why advocates of the theory of essential factors value oppose the theory of labor value is that they want to create a theoretical basis for distribution according to essential factors. They oppose to taking distribution according to work as the dominant factor and at the same time distort the nature of other forms of distribution. They put forth the principle that "everyone is equal in front of essential factors and contribution,"

and hold that distribution according to contribution should replace distribution according to work.

At the initial stage of socialism, the existence of various economic sectors with socialist public ownership as the dominant factor determines that we must carry out the principle of taking distribution according to work as the dominant factor with other forms of distribution as supplement. However, this has nothing to do with the theory of essential factors value. Nor is it the so-called "everyone is equal in front of contribution."

Distribution according to work is the fundamental socialist principle for distributing consumer goods. Distribution according to work is established on the basis of socialist public ownership and of laborers having become masters of the society and enterprises. Since socialist public ownership has replaced capitalist private ownership of the means of production, it inevitably, in terms of distribution, replaces the principle of distribution according to capital, land and power and distribution is carried out according to the quality and quantity of work provided by laborers for the society and enterprises. Distribution according to work is the implementation and realization of public ownership of means of production in distribution and is fundamental negation to the exploiting system. Although there are actual differences in income due to differences in manual and mental power of laborers, in the amount of labor provided, and in the numbers of family dependents, the sole basis for distribution is the amount of labor. This eliminates the possibility that a smaller number of people possess other people's surplus labor by means of the means of production and eliminates exploitation within the range of public ownership, thereby greatly arousing the enthusiasm of laborers, ensuring that the living standard of laborers will gradually improve with the development of production, and avoiding polarization.

Products of distributed according to work is created by laborers but these products are only part of the fruit of labor of laborers, that is, the part after necessary deductions for the society and not the whole. Advocates of the theory of essential factors value equate wages to labor. This confuses the source of income in distribution according to work and is harmful to correctly understanding the relation between material production and nonmaterial production, arranging distribution of national income, correctly handling the relations between the state, collectives and individuals. They also describe income from distribution according to work as laborers' income from selling their labor and say that the level of distribution is determined by the price of labor. If so, where is the laborers's status as masters? And where do they want to place the position of laborers?

In addition to distribution according to work, other forms of income distribution exist under the condition of socialism. Correct analysis should also be made on these income distribution forms.

One of them is income earned from interests, interests accrued from bonds, dividends, and bonuses. Under the current situation in China, most of this kind of income is income supplementary to income earned with labor by laborers. After normal consumption, a portion of the income of the vast numbers of laborers is temporarily left unused and saved as cash for future consumption. Putting this portion in the bank or using it to purchase bonds and shares can turn a part of consumption fund into accumulation fund. This is conducive to increasing construction funds and alleviating the pressure on the market and is thus conducive to the socialist construction. In the course of the change of funds, it is reasonable for the user of fund to give to the owner of fund certain amount of compensation in the forms of interests, interests accrued from bonds, and bonuses. Besides, such compensation is limited and does not constitute the major income of laborers. However, this kind of income is not created by funds but a redistribution of a part of new value created by laborers in the departments of material production. Regarding those who do not participate in productive labor but live on dividends and interests accrued merely by means of large amounts of bank deposits and securities, they possess other people's surplus labor by means of money capital. Their income is of an exploitation nature. Therefore, it is inconsistent with facts to regard interests and interests accrued from bonds as income from contribution with funds or distribution according to work.

Another form is income from work of self-employed people. Self-employed people are laborers, but they are also owners of certain amount of means of production. Their fruits of labor belong to them and their income is basically incomes from labor. However, is the source of their income entirely the value created with their own labor? No. Distinction between two situations should be made. One is self-employed people who engage in material production. They create values and the realization of value is the source of their income. However, there is difference between their income and the value they create. This is because there is often difference between individual labor consumption and social average necessary labor consumption, and there is difference between value and realization of value. Another situation is income of self-employed people in the field of nonmaterial production. Although this kind of income results from one's own labor, it is a redistribution of the value created by laborers in sectors of material production and is transferred to them from a part of the value created by laborers in sectors of material production through the exchange of labor in a roundabout way. It is not from value created by laborers in the nonmaterial production sectors. Much less is it "income of contribution" of "production factors." If self-employed laborers obtain their income by means of private means of production and workers employed by them, such income contains certain factors of exploitation.

Another form is income from business and differential income. As socialist enterprises under ownership by the

whole people and collectively owned enterprises practice independent management and assume sole responsibility for profits and losses and wages are linked to beneficial results, laborers in different enterprises may get different pay for the same amount of labor used. This includes the part resulted from difference in quality of management and may also include the part resulted from difference in geographic location, natural conditions, market environment, and the quality and quantity of machines and equipment used, factory buildings, and means of transportation. The difference in management is mainly determined by the ability of complex labor. So, the former should be said to be resulted from difference in the ability of complex labor and the difference in income is naturally resulted from difference in the amount of value newly created by complex labor and the difference in the way of distribution. How is the latter part formed? Although enterprises with different natural geographical conditions and equipment conditions may produce different fruits of labor with the same amount of labor, thereby giving rise of difference in income, there is not any difference in the value of products because the value of products is not determined by the consumption of individual labor, but by social average necessary labor consumption. The reason why the value is the same but the income differs is that products are sold at market prices and enterprises with better conditions put in less labor and costs, the individual value of products is lower than value, and may get additional income. The situation of other enterprises is just the opposite. This is a kind of inequality and its nature is the result of the existence of different forms of public ownership, different interests of different enterprises in economy under the same kind of ownership economy, and exchange of equal value. Part of the income from labor of some enterprises with relatively poorer conditions is transferred to enterprises with relatively better conditions. To put it in another way, part of the labor of enterprises with relatively poorer conditions is not recognized by the society, whereas labor of enterprises with relatively better conditions is not only recognized by the society but is given extra compensation. This kind of inequality is unavoidable in a socialist society and it plays a positive role. We must admit, but should not be confused with the source of the formation of this kind of differential income. Can nature and machines create value without labor of laborers? In fact, not only machines and equipment are fruits of labor, many favorable natural geographical conditions are also gradually formed over a long period crystallizing the labor of generations of people. Nature depends on human labor for its exploitation, transformation, and utilization. Only with our labor can the difference in natural geographical conditions be narrowed and thereby can the difference in income caused by geographical difference be narrowed.

Still another form is income of owners of private enterprises and "foreign invested enterprises." In the initial stage of socialism, and under the precondition of taking socialist public ownership as the dominant factor, we

permit and encourage appropriate development of private enterprises and "foreign invested enterprises." This is conducive to attracting funds and technology, increasing employment, and promoting the development of China's productive forces. The law also permits owners of private enterprises and capitalists of foreign party to get a certain amount of profits through production and business after paying taxes according to law. However, these profits are created by China's laborers, mainly by laborers of relevant enterprises. They are surplus labor grabbed by capital and not "income from capital contribution." The capital of these enterprises are nothing but means and conditions for absorbing surplus laborers. As far as the owners of private enterprises and capitalists of the foreign party are concerned, the laborers who work in these enterprises are the exploited. No matter how high their income may be, it is only a small part of the value they create. If all the value created by the laborers goes to the laborers, no capitalist will run any factory.

QIUSHI Article on Quality Control

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[Article by reporter Ai Feng (5337 0023): "China's Long March Toward Quality Improvement"—adapted from the author's speech at a National Quality Work Conference; to be published in full in No. 10 issue of QIUSHI 1992]

[Text] Beijing, 13 May (XINHUA)—It has been more than two months since the activity "China's Long March Toward Quality" was launched. During this period, over 70 articles for general consumption have been published; 34 advanced units have been commended; and 17 products and factories have been criticized. The television reporting crew has visited eight provinces and municipalities, covering some 6,000 km.

The Long March Toward Quality Improvement, a Matter Most Gratifying to the Masses

"The Long March Toward Quality Improvement" is a matter most gratifying to the masses," commented consumers. A consumer in Zhejiang's Xiaoshan added: "The masses are very pleased with the Long March because it publicizes the superior and exposes the inferior. It is indeed a wise policy decision to launch the Long March." The "Long March" has recently become a heated subject in the people's economic life.

The greatest benefit goes to consumers at large. Some, carrying newspapers to shopping, would point out substandard goods displayed in stores. A buyer of defective refrigerator, after fruitless negotiations, said: "I am going to talk to the Long March!" Instantly his problem was solved. A housewife, while watching televised discussions on the Long March by deputies at the recent National People's Congress session, raised her hands and exclaimed: "They are right! We must enact laws!" The motorcade of the television reporting crew on the "Long

March" was often cheered by people who had lined up the streets, while taxis also gave the television crew the right of way. In Henan, an old woman spent 30 yuan to buy a bouquet of flowers for the reporters.

One of the most notable fruits of the activity is the awareness of consumers to protect their own interests. Within a short period of one month from 6 March to 6 April, the Long March Organizing Committee received a total of 3,333 telephone calls and 2,115 letters of complaint. In a single day one telephone took as many as 567 calls from consumers, totally exhausting the staff members. Worrying that the effort to control quality will end up like "a gust of wind," the people are hoping that the "Long March will be carried on forever."

Governments at various levels and competent authorities have rendered tremendous support to the activity. Chen Xitong, state councillor and mayor of Beijing, was the first to make known his intention "not to protect the calves [first-time offenders]." Sichuan Governor Zhang Haoruo personally took charge of the cracking down on adulterated and unlicensed liquors. Under the climate created by the "Long March," Tianjin, Shanghai, Liaoning, Hebei, Henan, Shandong, Shanxi, Jilin, Guangdong, and Anhui Provinces adopted new measures to improve quality and crack down on fake products, launched "local versions" of the Long March, or drew inferences about other cases from one typical local instance of fake products which was brought to light. The Ministry of Light Industry, the Ministry of Commerce, the Ministry of Construction, and the State Pharmaceutical Administration issued documents urging all subordinate units to actively support the Long March by improving the work of quality control through the activity. The Ministry of Light Industry has taken measures and achieved some results in reinforcing supervision over the production and marketing of thermoses, a long neglected area. Liu Fuzhi, procurator general of the Supreme People's Procuratorate, has instructed procuratorial organs to support the activity and punish offenders manufacturing fake and substandard products. The Long March has inspired supervisory departments even more. According to a deputy director of the State Bureau of Technology Supervision, the Long March has solved problems which the bureau failed to do in many years. Of course, there are responsible persons in individual grass-roots governments, mainly in those places criticized by name, who have adopted a passive or even resistant attitude.

Enterprises' reactions varied. Those being commended were in high spirits, whereas those being criticized were greatly shocked. Having gulped down their homemade "bitter brew," they started to wake up. Some enterprises took a perfunctory attitude. When this reporter inquired about the "sources," their reply was "no comment." More enterprises have sensed a "fearful power." There were also a number of far-sighted entrepreneurs who strongly welcomed the launching of such activities. They believed this will create conditions for fair competition and is conducive to gearing enterprises to the market and transforming the mechanism within enterprises.

Vice Premier Zhu Rongji has written comments on a report: "China's Long March Toward Quality Improvement' has met with success and received good results. This is gratifying and should receive congratulations." He also relayed Premier Li Peng's opinion: "Well done. The impact is great."

The Consciousness of Quality: Have a Correct Understanding of the Four Sets of Relationships

The importance of the quality problems has been reiterated. To take action, however, some questions about relationships need to be answered to help understand these problems.

The Relationship Between Quality and Profits

Before the article on fake and unlicensed liquor was published in the newspaper, the party committees of Luzhou City and Gulin County had sent telegraphs to RENMIN RIBAO and the Central Television Network opposing the publication of that report. One of their reasons was that they were situated in remote and poor areas and had suffered a loss of 10 million yuan for getting involved in the lawsuit. Their economy could not endure the result of this report. Their request is understandable, but this has also raised a series of questions: Can poverty be an excuse for letting counterfeits have free rein? Is it right to harm the profits of other localities merely for pursuing the profits of this locality? Will it bring us more economic losses and affect the long-term development if we imperil local brand names and all of the products in the locality just for seeking momentary "profits"? A leading comrade from Zhejiang said with deep feeling: A poor-quality low-voltage electrical appliance from Leqing County can make all of Zhejiang's products become unreliable. This is a far-sighted view.

At the beginning of the "Long March," we have made public the principle of "investigation, punishment, and assistance." Enterprises will receive assistance in the long run and be encouraged to strive for profits on the right course.

The Relationship Between Quality and Development

Some worry that exposing counterfeits and poor-quality goods will deny the achievements in reform and opening up to the outside world. A consumer has complained: "On what grounds are we to promote modernization? We cannot even ensure the quality of shoes." It is clear that what affects people's confidence in reform and open up policies are counterfeits and poor quality goods, not the effort to ensure quality.

In fact, people have a full understanding of the current quality problems. It is a process "from having nothing to having things, and from having things to having good things." Reform and opening up to the outside world have turned the situation of having nothing to having things, from few to more, and thus have brought up the problem of "good things." When there was a shortage of things several years ago, things were purchased by

tickets. It was a favor if one thing was sold to you. Who would raise the question of quality?

At a recent discussion meeting, a responsible comrade of the State Planning Commission's Institute of Planned Economy said: Serious quality problems were caused by the following reasons: 1) Economic growth is now decided by the demand side instead of by the supply side. 2) Industrial structure has gradually changed from heavy industry of the past to light industry, which has competitive markets at home and abroad. 3) Consumers require better products. He held that quality is a point on which industries, enterprises, and consumers focus their attention.

According to information provided by the consumer association, several years ago, most complaints came from users of electric household appliances. Later, shoe producers became the main targets of complaints. Recently, most complaints are about the quality of food products. The changes tell us something. Fewer complaints about electric household appliances means that manufacturers have achieved results in upgrading quality. More complaints about the quality of food products means that the quality of people's livelihood has improved. All these facts prove that quality problems are the ones encountered during the course of economic development, and they should be solved during the course of economic development.

Relations Between Quality Improvement and Reform

The direction we are taking for reform is the same as the one for quality improvement. In a sense, quality is a kind of standard that gives expression to our achievements in reform and economic development. Many positive examples given in our articles prove that we can judge an enterprise by judging the quality of its products. Why is the quality of Jindao refrigerators good? Because the manufacturer has a complete system of quality control. This is what we need to improve the inner mechanism of enterprises. Many enterprises have achieved results in reform because they adopt a wage system that stimulates quality control. Visiting the Qiangli Beer Company, which was criticized for its poor-quality products, our reporters saw a scene like this: Standing inside a workshop, workers listen to a broadcast of reports of criticism. No one dares to speak or move. In the meantime, it drizzles outside the plant. The atmosphere is so sad! "Quality is the life of an enterprise" as an economic expert puts it. Only when quality problems endanger the life of an enterprise, can people really appreciate the true meaning of the comment. To have a good inner mechanism, enterprises should have a good system. But only when people begin to understand and accept such a system in their practical work, can they experience a functional mechanism.

We can create a fair external environment for an enterprise by taking macrocontrol approaches; that is, cracking down on fake and inferior quality products, strengthening the legal system, and improving the

market system. Otherwise, genuine and good-quality products might not compete fairly with fake or inferior ones. During my visit to Henan's Gongyi City, I encountered a strange situation: When I discovered evidence that a plant was making poor-quality electrical cores, I went to talk to the manager of the plant and told him that I was going to reveal the facts. The manager said he was not afraid of that. He said: Go ahead and do it. A newspaper did the same thing last time. Instead of hurting us, it did us good by giving us free publicity. Our local guesthouse did not have enough rooms to accommodate the extra people who came to purchase our products. This is a problem that deserves our full attention. A careful observation will show that a dangerous tendency exists in the economic cycle of production, marketing, and consumption. Plants that turn out fake and inferior products sell their products to state-run large- and medium-sized enterprises and markets by giving kickbacks. Then, the enterprises sell them to consumers. The victims of such transactions are consumers. However, state-run enterprises also suffered losses because their economic efficiency is affected by producers of fake and inferior products and by those middlemen who seek personal interests by misusing their power. We must pay attention to this problem if we are to carry out the guiding spirit of the CPC Central Committee to improve the economic efficiency of state-run large- and medium-sized enterprises.

Relationship Between Quality and Society

Quality not only is essential for products but also for economic life. More often than not, product quality reflects the connection between the economy and society and between economic and political performance, and it has an impact on society as a whole. Counterfeit products not only produce corrupt sales personnel, they can also produce corrupt government personnel because their manufacturers will use money to buy a protective umbrella. In addition to losing money, people who have purchased counterfeit and shoddy products often will lose their family harmony and their confidence in the four modernizations as well as social stability—just as one of our reporters said.

When members of our television crew visited a certain city to hear consumers' complaints, over 15,000 people showed up. Some consumers lugged their television sets along. One hurled his television set in front of us, saying: "I am going to throw it away, anyway. Please record this scene with your camera!" Another consumer purchased six electrical household appliances, all of them soon broke down, and he could not have the problems resolved. As he told the story, he became so angry that he fainted. Poor product quality can indeed be a factor that causes instability, and this problem must be resolved.

One scholar who just returned from abroad said that administrative ethics, good public order, and good-quality products are three things essential for winning popular support.

Commenting on our long journey to find facts concerning product quality, the masses not only praised the press but also the party and the government for providing them with a big, useful service.

Six Proposals for Improving Product Quality Should Be Considered

Product quality has these distinctive characteristics:

Broadly speaking, problems about quality can be observed in many areas and at various levels; their causes are also very complicated; and their natures are also vastly different. Counterfeiting, for example, is a lawless conduct that infringes on other people's rights; it is not just an ordinary problem about quality. When this problem is compounded by other problems, the task of ensuring product quality becomes very difficult.

Nevertheless, since product quality is the physical embodiment of many causes, it is something definite and something that can be tested quite easily; therefore, examining product quality is a highly maneuverable operation. This is the easy aspect of ensuring product quality.

The problem of interests is the key to solving problems about product quality. Thus, dealing with the problems by resorting only to people's awareness and sense of ethics is not enough; applying control or sanctions against interests is the fundamental way to ensure product quality.

Product quality is also a permanent economic issue. While it will take a long time to resolve the existing problems concerning quality, new problems will occur when the existing problems have been resolved. However, the urgency of dealing with this issue cannot be ignored just because of its protracted nature.

Basing on the experiences we have gained from the long journey, we think consideration should be given to the following proposals for ensuring product quality:

1. Handle the problems at various levels. Despite their complexity, problems of product quality can be divided into three categories: 1) Counterfeiting. This is not an ordinary problem about poor quality, but deliberate, lawless conduct. 2) Utter shoddiness, such as bits and pieces of snail shells and broken glasses in wines. Such shoddiness seriously jeopardizes consumers' safety and health as well as normal economic operations. 3) All ordinary problems concerning quality.

Priority currently should be given to cracking down on counterfeiting and utter shoddiness.

2. Trace the problems back to producers. Efforts to ensure product quality must produce a certain impact on interests. To do this, responsibilities should be clearly defined. Since the responsibilities between producers and sellers are often unclear, they blame each other when problems occur. For the sellers, they would say that they are not the manufacturers; and for the manufacturers,

they would say that they already have given maintenance fees to their sales agents. Consequently, the consumers are kicked back and forth, complaints are unheeded, and counterfeiters are not found. When measures for tracing responsibilities are earnestly enforced, buyers can hold sellers responsible for shoddy products, sellers can hold wholesalers responsible, and wholesalers can hold manufacturers responsible for the same reason. Only when producers hold themselves responsible for the quality of the products they produce will sellers hold themselves responsible for the goods they sell.

3. Improve relevant laws and regulations. One of the strongest demands we heard in our journey is to ensure product quality by means of law. Although there are some regulations governing sanctions against counterfeit and shoddy goods, they are not comprehensive; nor are they earnestly enforced, so they do not have intimidating effects. How can a counterfeiter or a producer of shoddy goods be intimidated when they are fined only a few hundred yuan or a few thousand yuan when they can make a profit of tens of thousands yuan, or even hundreds of thousand yuan?

While there are positive efforts to draw up the "Law Governing Product Quality," people propose that certain administrative regulations should be introduced. We have learned during our journey that certain problems about quality, especially those involving large areas, often have something to do with nonstandardized regulations or poor coordination between competent authorities because of a lack of regulations to follow. This is the case for problems involving bean-based pork, inferior medicines, and gas-burning water heaters, as well as certain cosmetics, which gave rise to disputes some time ago. Some people sharply pointed out: The situation where "little goblins suffer while immortals fight among themselves" should not continue.

4. Exposure by the media. People know that those dealing in counterfeit and shoddy goods are most apprehensive about being exposed. The power of exposure lies in the consequence that shoddy products will have no buyers once their natures have been exposed to the public, to shoppers, and to the vast number of consumers. While authorities in charge of business and technical supervision have accomplished a great deal, they often feel short-handed and compare their limitations to trying to put out a big fire with a cup of water. In the future, if the media get hold of a few major cases and expose them after looking into them thoroughly, the results will produce a considerable intimidating power. When our long journey began, comrades of the State Bureau of Commercial Inspection took the initiative in coordinating their work with various groups and committees in furnishing us with some typical cases, and we also had the support from the Foreign Economic Relations and Trade Ministry, so our investigation immediately created a shock. That was an example of great success.

5. Joint actions from all quarters. We deeply feel that the press was by no means the only source of strength that created the shock. We could not have challenged the local protectionism had we not had the support from leading comrades of the State Council; we could not possibly have scientifically judged and selected the targets for exposure had we not had the support from certain responsible authorities; enterprises could hardly have proceeded with their restructuring if they did not have local governments' support; and we could not possibly have created the great impact if we did not have the support from the vast number of consumers and consuming groups. This shows the strength of joint actions.

Under certain circumstances, such joint actions are quite effective in forcing manufacturers to improve the quality of their goods. But there should be various other ways. Some people propose in their letters to us that our "Long March" operation should be retained, regular liaison units should be established, and our activities should be held once or twice every year. Moreover, there can be the establishment of similar liaison networks by various regions and various trades; cooperation between the media and responsible authorities, including the consumers' organizations, in sponsoring special columns on improving product quality; and so forth.

6. Bidirectional methods. To solve all problems concerning product quality, we must deal with sporadic and superficial problems first, then prevalent and deep-rooted problems, and vice versa. The whole process should be constantly repeated.

The priorities of a given period should be determined by overall needs, and typical cases should be selected. In this case, efforts are applied from a broad area to selected spots. On the other hand, efforts must be applied from selected spots to a broad area. By doing so, we must single out certain products and certain enterprises so we can use them as examples to educate other manufacturers and enterprises to improve the quality of their goods. As far as enterprises are concerned, we must check their performance, discipline their operation, and offer them assistance. By assistance, it means we should help them dig out their deep-rooted problems and solve them—first the symptoms of the problems, and then their root causes. Some deep-rooted problems are useful for educating other enterprises, and some have to be dealt with by departments in charge of macroeconomic management. In this case, efforts are applied from selected spots to a broad area. After the government and departments in charge of macroeconomic management have improved their work, they have to implement the improvement measures, thus beginning another cycle of applying efforts from a broad area to selected areas. By doing this, not only will we be able to improve product quality both temporarily and permanently, but we can also regard this method as a head start in promoting our economic operation as a whole.

Price Bureau Chief on Improving Enterprises

92CE0382A Beijing ZHONGGUO WUJIA (PRICES IN CHINA) in Chinese No 3, 17 Mar 92 pp 2-5

[Article by Cheng Zhiping (2052 5268 1627): "Improving Price Reform; Improving the Business Operations of Large- and Medium-Sized State Enterprises"]

[Text] I. High Significance of Improved Pricing Arrangements for Large- and Medium-Sized State Enterprises

The large- and medium-sized state enterprises are the pillars of the national economy. China's present large- and medium-sized state enterprises that operate financially independently account for 2.5 percent of the total number of the country's industrial enterprises, but produce 45.6 percent of the country's gross industrial output value and contribute over 60 percent of the profits and taxes to the state. Advanced technologies and equipment available within the country, as well as most of the country's talented professionals are concentrated in the large- and medium-sized state enterprises, which in turn provide the state with 50 to 100 percent of all basic industrial products and major production equipment. The efficient management of these large- and medium-sized state enterprises is therefore of decisive significance in our efforts to strengthen China's economy and for achieving the great strategic objective of realizing our socialist development. The large- and middle-sized state enterprises are also core component of China's socialist public ownership system, and they are a leading factor in the socialist economy. Consolidation of the socialist ownership system and bringing the superiority of the socialist system fully into play depends to a very large extent on showing development, growth, and higher economic efficiency in the large- and medium-sized state enterprises. We must therefore fully realize the very important position which the large- and medium-sized state enterprises occupy in the socialist development, must devote added effort to improving the business operations of these large- and medium-sized state enterprises, and raise this realization to the level of a concern for the consolidation and development of the entire socialist system.

For an effective improvement in the business operations of the large- and medium-sized state enterprises, the state must adopt a series of policies and measures. They comprise policy decisions on the macroeconomic side, to create a favorable external environment for large- and medium-sized enterprises, as well as policy decisions on the microeconomic side, such as changing the enterprise management mechanism and strengthening the vitality of the enterprises. Prices are lubricating agents in the revitalization of the enterprises. Intensification of the price reform, the gradual establishment of a pricing system and management system with Chinese characteristics in an integration of planned economy with market regulation, is of extreme significance for the stepped-up improvement in the business operations of the large- and medium-sized state enterprises.

For a certain period recently, policies and measures adopted by the central authorities to improve the state of the large- and medium-sized state enterprises had always been directly or indirectly linked with the price problem. The following are some that directly involved prices: "It is necessary to move the large- and medium-sized state enterprises into the market"; "it is necessary to change the pricing mechanism, to gradually determine prices for state-controlled commodities according to production costs and an average profit rate, so as to have most products arrive, through market regulation, at prices that conform with the law of value"; "it is necessary to resolutely put an end to the 'three indiscriminates'"; "we must radically eliminate indiscriminate apportionments, charges, and fines"; "it is necessary to continue implementation of the Enterprise Law," to carry into effect the pricing autonomy which the enterprises should enjoy according to the provisions of the law; "we must accelerate technological progress," encourage the enterprises, from the price angle, to develop new technologies and new products, etc. In all these cases, appropriate specific measures should be adopted on the price side, and these must be comprehensively implemented. Enterprises must learn to utilize the pricing autonomy conferred upon them by the Enterprise Law, within the scope set by national policies, and must improve their skills of utilizing the said autonomy. The commodity price agencies of the state must shift their activities from setting prices, adjusting prices, and controlling prices, to activities that, on the one hand, will proceed rationally and orderly in controlling those prices that have to be controlled, and must, on the other hand, provide the enterprises, especially the large- and medium-sized state enterprises, with favorable conditions for their effective use of their pricing autonomy. All state agencies must thus act in service to a more effective operation of the large- and medium-sized state enterprises and in service to higher economic returns.

II. Pricing Measures Adopted Since the Price Reform Benefitted Improvement of Business Operations of Large- and Medium-Sized State Enterprises

Since the 3d Plenum of the 11th CPC Central Committee of December 1978, 13 years have already passed in China's price reform, as it has gone from initial stage, to development, and finally to a state of intensification. During this period, the price reform measures adopted by the state have all started out from considerations of the national economy as a whole, from the consideration of promoting the sustained, stable, and coordinated development of the national economy. Major readjustments of prices for relevant industrial and agricultural products and the reform of the price control system have always been very closely linked with improving the state of the large- and medium-sized state enterprises. The following are some of the major measures that the state has adopted in this respect:

The very large increases in the prices for agricultural products, boosted, quite appropriately, all prices for basic industrial products, but did not raise, or raised

only little, prices for manufactured goods. This staggered adjustment of the price structure supported agriculture and increased the supply of raw materials for the enterprises. It proved beneficial in that it raised the capital profit ratio of large- and medium-sized state enterprises mainly engaged in production of energy and basic raw materials, machinery, and equipment, and it proved beneficial in that it put an end to the state of unfairly low prices for basic products.

With regard to the management system, it was mainly a matter of relegating to lower level or relinquishing of price-control powers, and of deregulating prices for a large portion of agricultural products, and also for a portion of industrial products. It was also a matter of initially setting up a new overall system of pricing and price controls with three forms, namely controls by central authorities, local authorities, and enterprises at different levels, and having state-set prices, state-guided prices, and market regulation, coexisting simultaneously.

Emphasizing a policy of higher prices for higher quality and of promoting technological progress. Methods to promote higher prices for higher quality were repeatedly formulated and promulgated, clarifying the scope of products apt to achieve higher prices for higher quality, also clarifying the range of price increases and price measures that would encourage new products. Use of the price lever to promote improvement of product quality and the replacement of older generations of products with new ones.

In the case of the industrial means of production, a "dual-track system" was put into operation, in which plan prices and extra-plan prices coexist simultaneously. The state also approved in the form of temporary prices that some enterprises which truly experienced difficulties in applying the state-set prices may sell their products at prices above those fixed by the state. In the case of some important energy sources where it was found difficult to effect a universal price increase, a variety of price increase methods were carried out. It must be pointed out that these measures of a transitional nature have a dual character, on the one hand they alleviate difficulties of certain enterprises in situations where it would be impossible to effect a large-scale readjustment of prices, thus allowing reproduction to continue. On the other hand, these measures also violated the law of commodity circulation in the market, they caused a distortion in the price system, and have been the cause of quite a few negative effects.

Improvement of the commodity circulation system, adjusting various price differences and price parities, establishing rational price differentials, promoting agency systems for pricing import and export commodities, all this in service to the expansion and revitalization of commodity circulation.

Through the above mentioned gradually progressive, but highly important price reforms, a marked improvement

has been achieved in the seriously distorted price structure. Comparing 1990 with 1978, procurement prices for agricultural and sideline products have risen by 174 percent, retail prices of rural industrial products by 72 percent, prices for products of the extractive industries by 150 percent, prices for the products of the raw and semifinished materials industries by 130 percent, and prices for the products of the manufacturing industry by 94 percent. This staggered structure of price increases demonstrates that some improvement has taken place in the pre-reform state of affairs, when basic product prices had been unfairly low and prices for manufactured goods unfairly high. At the same time, the pricing mechanism has also undergone a great change. The highly centralized price control system of the past has been greatly transformed, as the price autonomy of the large- and medium-sized enterprises has been correspondingly expanded. In 1978 almost all prices for industrial means of production were fixed by the state, while in 1990 the ratio was down to 44 percent, which indicates that prices for a large portion of industrial means of production may be freely determined by the enterprises through market regulation or under the state's plan guidance.

The price reform has achieved tremendous successes during these 10-odd years. It has been extremely effective in revitalizing the large- and medium-sized enterprises and in bringing about increased economic returns from enterprise operations. However, presently quite a few problem still remain in this respect. If we compare the large- and medium-sized state enterprises with the town and township enterprises, with foreign-funded enterprises, and with small-scale enterprises, the former find themselves frequently in an unfavorable position. For instance, with regard to their tax burdens, large- and medium-sized state enterprises are not treated on equal terms with town and township enterprises and foreign-funded enterprises, and their burdens are also unequal in social welfare and social security affairs. Speaking only of prices and price formation, they are also at a disadvantage in what should be a state of fair competition. First, there is no equality in the pricing authority of enterprises. Because the large- and medium-sized state enterprises produce more commodities of "guidance-plan" nature, also more commodities with state-set prices, their pricing authority is less than that of small-scale enterprises and foreign-funded enterprises. Second, they operate under the system of full own financial responsibility, profits and taxes that are to be turned over to the state have become fixed obligations which cannot be timely adjusted according to the state of business operations and profits. Third, the labor and remunerations systems are not sufficiently elastic, rewards are partaken as "the food from everyone's big pot," the diligent cannot be particularly rewarded, nor can the lazy ones be fined. This in turn adversely affects work enthusiasm among staff and workers. Four, having to undertake the production of items under mandatory planning implies selling according to state-set prices, and there are some monopolistic users who use their administrative powers to even further press down the sales

prices of these products. On the other hand, there is no guarantee that supplies of needed raw materials, controlled under the state supply plan, will be forthcoming, so that a considerable quantity of them will have to be bought at high prices in the market, which increases costs of raw materials and reduces profits.

In future, appropriate measures should be taken to make it gradually possible for the large- and medium-sized state enterprises to enter into fair competition with other enterprises of a similar nature in about the same circumstances, and to arrive at a macroeconomic state in which the fittest will survive.

This is only one side of the problem; there are also some more deep-rooted problems, such as the irrational price structure, the "dual-track system" of pricing, provisions limiting price control authority, etc. These problems will all have to be solved in the course of deepening the price reform in order to optimize the industrial structure, product mix, and the organizational structure of enterprises, and, furthermore, in order to arrive at a rational disposition of resources and at higher economic returns for the enterprises and for the national economy as a whole.

III. The Price Lever as a Means To Improve Business Operations of the Large- and Medium-Sized State Enterprises

In our efforts to revitalize the large- and medium-sized state enterprises, efforts also to effect structural adjustments, and to raise economic returns, the most basic need is a change of concepts and an enhanced competitive consciousness. Fostering a mentality of striving to survive and to develop within competition, a mentality of organizing production according to the needs of the market, and a mentality of full financial responsibility and of having the fittest survive. Smash the "three irons" (iron rice bowl, iron armchair, iron walking stick [for old age]), and let us orient ourselves toward the market, let us consciously base our production and business activities on the needs of the market, and have the enterprises gradually develop into socialist commodity producers and traders, operating under the guidance of the state's plan and the state's macroeconomic policies, with decision-making powers in management, with full own financial responsibility, and with self-development as well as self-restraint. As we consider the area of prices, we see the need to further improve reform, gradually establish a new price system, consistent with our fundamental principle of public ownership, with the development of the socialist planned commodity economy, and with an integration of planned economy and market regulation. It will be necessary in the near future to pay close attention to the external and the internal sides of enterprise operations and to work hard and effectively at these problems.

The following are eight suggestions as to what needs to be done on the external side with regard to prices, in order

to improve the business operations of large- and medium-sized state enterprises:

1. A more intensive implementation of enterprise pricing autonomy. The relevant departments of the government must safeguard the lawful rights of enterprises in the matter of pricing, must support the large- and medium-sized state enterprises as they freely set their own prices, and must see to it that the enterprises indeed exercise the right provided for them, namely to price their own products. It is necessary to pay close attention to a revision of the listing of price controls on the basis of a division of labor. Prices that are unsuitable for state control, and that may better be decontrolled, should gradually be turned over to the control of the enterprises, according to the provisions governing the division of labor in the exercise of price control powers. It is furthermore necessary to do a good job of coordinating prices between enterprises, of mediating disagreements, and of safeguarding good order in the overall price situation.

2. A price adjustment to be carried out step by step and in a planned way for a portion of products for which are now being set by the state, improving the principles and methods of price formation, straightening out contradictions in the price structure, and promoting a rational adjustment of the industrial structure and of the product mix. In controlling the rise of retail commodity prices in the market, keeping them within the general index prescribed in the plan, it is necessary to gradually adjust unfairly low prices for a small number of important agricultural products and basic commodities. Irrational prices of light industry products must also be flexibly adjusted. Price adjustments must effectively deal with the price relations between the various trades and between various districts, and also deal with the relationship between state, enterprises, and individuals. The margin within which prices under the state's guidance-style planning are permitted to float may be appropriately widened, allowing the enterprises a greater measure of mobility at times of price fluctuations.

3. Improving, perfecting, and implementing pricing measures that will set prices at such a level as to encourage production of high-quality, high-priced goods and that will enable trial sales of new products, in order to promote technological progress and raise the quality of products. Opportunity should be opened for raising prices of products which are subject to state price control if the products are produced at higher quality. High quality products that incorporate high-tech components may be allowed appropriately higher ex-factory prices to compensate for additional labor expenditure. If an enterprise develops a new product, it may flexibly determine and timely adjust its price during the period of trial sales.

4. Improvement of price controls at the intermediary links of circulation, increased stimulation of circulation. Starting out from considerations of benefitting the development of the market mechanism and of improving circulation, and mindful of the different conditions in

the various localities and of the differences in the various commodities, it is necessary to allow rational and elastic regional price differentials. According to the particular characteristics of the commodity, the flexibility in the supply of and demand for the commodity, and the receptiveness of the consumers, seasonal price differences shall be fixed for certain commodity. Regional blockades and price discriminations are prohibited.

5. A continued rectification of "dual-track system" prices for the means of production, to create a fair and rational competitive environment for the enterprises. Wherever feasible, the two prices, the plan prices and the extra-plan prices, shall be merged into one price; we should resolutely pursue a "merger of tracks." Where it is temporarily not yet feasible to "merge tracks," measures shall be adopted to gradually narrow the gap between plan and extra-plan prices, in the interest of allowing the enterprises to engage in a fair competition.

6. The "three indiscriminates" (indiscriminate apportionments, charges, and fines) must be resolutely brought under control, and action against the "three indiscriminates" must be combined with the rectification of unhealthy tendencies. We must abolish charges that are inconsistent with state regulations, and must also reduce excessively high scales of charges, in order to reduce the financial burden of the enterprises.

7. We must give attention to price legislation, must at an early date promulgate a "Price Law," formulate it and clear up all legal provisions regarding prices, so as to provide a legal backing for the pricing activities of the enterprises.

8. In an integration of control and service functions, the state must institute price checking according to law, and in this respect cover the entire society. The state's commodity price agencies shall organize exchanges of experiences in price control activities, provide information and provide consultative services, and assist the enterprises in the training of personnel that will be well qualified for price control work. We must develop the practice of opposing decadence, of maintaining honesty, of striving for excellence in quality, and for higher economic returns.

On the internal side, we must further enterprise reform, and must relentlessly give energetic attention to the performance of a shift in the management mechanism, i.e. mainly build up an operational mechanism which is consonant with our integration of planned economy and market regulation, a mechanism of production and business operations and a profit-pursuing mechanism which comprises autonomy in decision-making powers for the enterprise management, assuming full financial responsibility, distribution according to work performance, and orientation toward the market. We must strengthen the leadership and enhance political-ideological work; we must also perfect the contract management responsibility system, improve business management, and promote technological progress. As regards prices, and in

view of the gradual relaxation of price controls by the state, the enterprises must emphasize strictest plant management and strictest control of prices. The following are six suggestions in this respect:

1. Best use must be made of the pricing autonomy. According to relevant legal provision of the state, enterprises have the right to resist, and to report for proper action, all acts that violate their rights and interests in the matter of pricing, i.e. when setting prices for commodities and labor services that are subject to market regulation, when setting prices for commodities and labor services that are subject to guidance-type pricing by the state, and when setting prices for the trial sale of new products, or when setting higher prices for products of improved quality. When determining their prices, enterprises must embrace the viewpoint of concern for strengthening the overall situation, must enhance their awareness of the commodity economy, must show an enhanced market mentality, and must create a pricing mechanism that is suited to market competition. In determining their prices, enterprises must not only consider their costs, but must also consider market conditions and compatibility, as well as the developmental prospects of the commodity. The prices that are decided upon must be acceptable to the public, and must be prices that will ensure good sales and realize the best possible profits for the enterprise in question. These prices must furthermore be adjusted as a consequence of changes in the relevant factors, to suit changed times and changed circumstances. This will truly turn the decision-making power in matters of pricing into a powerful weapon to improve the business operations of the large- and medium-sized state enterprises.

2. The price relationship between principal products, joint products, and byproducts, as well as between main machinery and accessories must be effectively established, to promote enhanced efficiency of the entire body of the enterprise. Prices must be a means to promote the unison of the enterprise and to bring enterprise solidarity fully into play.

3. We must effectively carry out the task of increasing prices for improved quality products for which the enterprise itself sets prices. Prices must, on the one hand, correspond to commodity quality, and, on the other hand, must take the receptiveness of the market into account, so as to promote the spread of advanced technologies and to develop reputations, specialties, goods of high quality, and new products.

4. Price determination and price control by enterprises must be standardized and backed by legal institutions. It is necessary to formulate pricing methods for every particular enterprise, to have regulations to consult and legal provisions to follow in all price increases or price reductions by the enterprises. We must enhance the internal pricing supervision in the enterprises, and perfect a mechanism for self-development and for self-restraint in the enterprises.

5. We must enhance cost control. We must institute a responsibility system for costs broken down by items, to promote increased production, improve product quality, reduce costs, and diminish material consumption. Cost control shall be combined with the reform in workers' wages. We must do a good job of internal distribution within the enterprises, turn losses into increased profits, and bring the enthusiasm and creativity of the large number of staff and workers fully into play.

6. We must establish an organizational system and working system for the price-related policy decisions of the enterprises to truly ensure the scientific and tactically nature of pricing decisions by the enterprises and to strengthen their competitiveness in the market. Personnel engaged in commodity price affairs must step up their studies, to continuously raise their political and professional quality and the quality level of their work performance. The enterprise leadership shall arrange for the participation of commodity price control cadres in the production and business management decisions of the enterprises, to bring the advantages of their closeness to production operations, their wide range of contacts, and their quick responses to information changes fully into play, for a greater efficiency in applying the price lever and for larger economic returns for the enterprise and for society.

Status of Economic, Technical Cooperation

92CE0415A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 11, 16 Mar 92
pp 3-4

[Article by Gao Lianqing (7559 6647 1987): "The New Situation in Chinese Horizontal Economic and Technical Cooperation"]

[Text] Last winter and this spring with opening to the outside again becoming a hot topic, the new aspect of economic and technical cooperation among China's provinces, municipalities, and autonomous regions and among economic entities is catching the attention of people in economic circles.

According to statistics from the departments concerned, in the Seventh Five-Year Plan (1986-1990), regions throughout the country all together completed 430,000 economic and technical cooperation projects, 210,000 technology exchanges, and 520,000 personnel exchanges, and cooperation in goods and materials totalled 257.3 billion yuan. Throughout the country, horizontal joint economic activity added 215.2 billion yuan to the value of output and 32.9 billion yuan to taxes and profits, contributing greatly to China's continued stable economic growth.

Acting as a Bridge Between Planned Direction and Market Adjustment

Along with reform and opening up, the state has gradually reduced the scope of mandatory planning and

reduced the categories and numbers of products allocated and transferred according to plan. The industrial products administered by state mandatory plan presently have been reduced from more than 120 categories making up 40 percent of the total national value of industrial output in 1980 to [just] over 50 categories making up 9.7 percent of the total national value of industrial output. Regarding circulation, the goods and materials that the State Planning Commission is responsible for balancing and allocating has presently been reduced to 19 categories from 256 categories in 1979, and even for these 19 categories, the proportion allocated by mandatory plan also has been greatly reduced. For example, the share of production volume of state allocated goods and material from the four major categories has declined from year to year. Coal, steel, cement, and lumber declined from 58.9 percent, 77.1 percent, 35.7 percent, and 85 percent respectively in 1979 to 49.7 percent, 46.6 percent, 13.1 percent, and 30.7 percent in 1990. The huge gap in goods and materials created by the annual decline in the products allocated and transferred by vertical mandatory planning has mainly been made up by horizontal economic and technical cooperation among regions and among enterprises. From 1986 through 1990, the amount of goods and materials transferred among Chinese regions by horizontal economic and technical cooperation increased greatly. It is estimated that there were 397.48 million tons of coal, 22.48 million tons of steel, 41.21 million tons of cement, and 40.95 million cubic meters of lumber.

Some provinces and municipalities deficient in resources also gather resources in many ways and establish energy and raw and processed materials bases in provinces and regions with resources to satisfy their energy and raw and processed materials requirements. Beijing Municipality raised a total of 2.07 billion yuan from 1986 through 1991 to establish 150 bases in 81 cities and counties in 22 provinces and regions, including Liaoning, Hebei, and Heilongjiang. Shanghai Municipality invested 1.8 billion yuan to jointly establish 789 raw and processed materials processing bases with outside provinces and regions returning goods and materials valued at 5.5 billion yuan and effectively adding to the development of the Shanghai economy.

The situation described above indicates that the upper echelons cannot be completely relied on to arrange and provide for the development of regional production and the economic development of enterprises. When we add the unhealthy state of market mechanisms, without developing horizontal economic relations it will be difficult to maintain normal enterprise operation and production, procurement, and sales. Precisely with this general economic background, horizontal economic and technical cooperation serves as a link and a bridge between the planned economy and market adjustment and promotes the transition of the state planning system from being mainly directly administered to being mainly indirectly administered.

Giving Impetus to Joint Enterprises

In recent years the establishment of enterprise conglomerates has been an aspect of China's economic and technical cooperation that has caught people's attention. It is a necessary trend for the concentration of the modern economy. The 49 famous products produced by the Shenyang Dongyao conglomerate are in great demand on the international and the domestic market. Before the conglomerate was organized, because of limitation in such areas as resources, funds, and factory buildings, it could not form a production of scale relying only on one factory. After the conglomerate was established, by combining key advantageous productive elements and expanding the production of famous products, they improved the coverage of the products on the international and domestic markets.

The stock system has been a new and timely form for joint enterprises. It is useful for separating ownership from management authority and helps to increase the vitality of enterprises and to raise funds. Management is not limited by regional or departmental administrative jurisdiction and it becomes more open. So, it is welcomed by everyone involved in the cooperation. The Jiangsu Huanghai Amalgamated Corporation is a stock system enterprise conglomerate formed by four enterprises and fifty enterprise units investing cash funds in stocks. The value of the stocks is 18.63 million yuan. Over 50 percent are state stocks. The rest are enterprise stocks, social stocks, and individual stocks.

The emergence of enterprise groups attacked the closed, disjointed economic management system and produced enterprise mergers such as the merger of the Nanjing Joint Automobile Company with the Nanjing Diesel Engine Factory, unifying assets and management at the core of the enterprise group and giving impetus to combining enterprise funds and enterprise contracts (leases), making the management authority relatively concentrated and breaking out of the unchanged old pattern of subordinate administrative relations as in the Dongfeng Joint Automobile Company's leasing of the Hanyang Special Car Factory.

Economic and technical cooperation is presently facilitating the growth of enterprise groups. In recent years, with economic rectification the state, to improve programmed direction and macroeconomic management of enterprise groups, has listed enterprise groups beneficial to the national economy and the people's livelihood in the state plan and granted them the same authority as ministries to approve fixed asset investments and use of foreign investment and use of their own foreign exchange to introduce technology. There are fourteen large enterprise groups such as this, including the Jiefang, Dongfeng, and Zhongxing Automobile Joint Industrial Enterprise companies and the Shanghai Joint Electrical Company.

The establishment of enterprise groups has struck a powerful blow at local and departmental restrictions,

encouraged enterprises to manage their own affairs, and improved enterprises' subordinate position to the government. The listing of large enterprise groups in the state plan is especially beneficial in detaching them from administrative departments and helping to establish a modern enterprise system.

Establishing a modern enterprise system so that enterprises will become commodity producers and managers with internal motivation for development and their own operating mechanisms is precisely the major goal of China's reform of the economic system. Horizontal relations among enterprises are important ways of accomplishing this goal.

Promoting Regional Cooperation

The economic development of China's east and west and south and north is very much out of balance. Each has its strong points in such aspects as superior natural resources and social, technological, and capital capabilities. With the impetus of horizontal economic and technical cooperation, regional cooperative organizations have emerged one after the other and new economic networks have gradually taken shape. They have encouraged fully utilizing resource, technology, and capital advantages among regions to create favorable external conditions for distributing resource advantages. For example, seven localities in five southwestern provinces and regions incorporating the principles of reciprocal benefits and joint development have each signed agreements with the State Natural Resources Investment Company to jointly establish power stations. Among them the cooperatively established power stations of Yunnan, Guangxi, Guizhou, and Guangdong have a total installed capacity of 3.82 million kilowatts. This takes full advantage of the southwest's hydroelectric and thermal electric superiority, thereby spurring on the development of other leading industries. Tianjin Municipality has cooperated with Shanxi Province in transferring its calcium carbide production, which is a high energy consumer and uses many raw materials, to a calcium carbide factory in Taiyuan, Shanxi. Tianjin Municipality has increased its investment and sent engineers and technicians to the Taiyuan factory to upgrade the technology and expand production. Thus they have adjusted Tianjin's industrial structure and promoted the economic development of Shanxi Province.

Regional economic and technical cooperation has broken out of the self-sufficient and self-contained pattern of former days bringing about the development of such key production factor markets as the product market, the financial market, the skills market, and the labor market. For example, the Nanjing Economic Cooperation Zone, the Wuhan Economic Cooperation Zone, and the economic cooperation zone of the seven localities in the five southwestern provinces have all taken the first step toward forming their own regional markets. The Nanjing Economic Cooperation Zone since its establishment in 1986 has circulated and sold commodities worth more than 13 billion yuan, shared 3.1 billion

yuan in goods and materials, and circulated 9 billion yuan in funds. In the scientific and technological market they have exchanged more than 1,900 practical technologies and completed 44 projects that could earn a value of output of more than 30 million yuan. These markets maintain and enrich the economic existence and development of a large group of enterprises and regions.

New Patterns of Production and Investment

With the intensification of reform of the planning system, the Chinese investment system has undergone major change. In 1981 total fixed asset investment in Chinese society came to 96.101 billion yuan, of which investment in the state budget was 26.976 billion yuan, domestic loans were 12.2 billion yuan, and funds raised by themselves came to 53.289 billion yuan, making up 28 percent, 13 percent, and 55 percent of the total fixed asset investment, respectively. By 1988 total fixed asset investments of the whole society had increased to 449.654 billion yuan with the proportion of investment in the state budget, domestic loans, and funds raised by themselves being 9 percent, 20 percent, and 64 percent, respectively.

We can see from the data given above that from 1981 to 1988 investment from funds in the budget, i.e. those listed in the state fixed asset investment plan and allocations in the state financial budget (including state allocations changed to bank loans) progressively declined, with its proportion of total fixed asset investments going down seven [as published] percentage points in seven years, and domestic loans rose by seven percentage points and funds raised themselves rose nine percentage points. This indicates that the central government's ability to control the scale of investment has been clearly weakened. It only can control funds in the budget and domestic loans amounting to less than 30 percent, but a very large part of the funds raised themselves are controlled by local governments and the state's only restriction on this part of the funds is the guiding plan.

Presently, the state actually can only directly administer [a little] over 20 percent of total economic activity. The rest is hard for the plan to cover because of unhealthy measures and incomplete methods. So, if we want the state plan to cover the economic activity of the entire society and fully carry out its macroeconomic control function so that the national economy can sustain stable, coordinated growth, we must make a great effort to study how to actively and effectively use the 9 percent of the total fixed asset investments in budgeted funds and the 20 percent in domestic loans. These are two parts of the funds that the state can directly control and use to encourage the investment of the whole society's funds in key construction projects. In these respects horizontal economic and technical cooperation becomes a new pattern.

In recent years China's capital construction investment has actually developed from the past [situation of] the state taking on everything into combined investment of

the central government, local governments, departments, enterprises, collectives, and individuals. For example, through the combined investment of localities and the Ministry of Railways to build railroads, 1,312 kilometers of railroads have been laid and opened to traffic, amounting to 41.3 percent of the total kilometers of new rails laid in the past ten years. From 1986 through 1990, localities and enterprises raised 5 billion yuan used for railroad construction, amounting to 15 percent of railroad construction funds for the same period. Presently, China's railroad trunk lines constructed with joint investment extend to sixteen provinces and regions, including Nei Mongol, Xinjiang, and Guangdong. Practice has proven that this is a possible way to collect funds from every area of the nation for a major state project.

FINANCE, BANKING

Circular Describes Appearance of New Coins

OW2905173892 Beijing XINHUA Domestic Service
in Chinese 0242 GMT 28 May 92

[Circular issued by People's Bank of China Governor Li Guixian in Beijing on 27 May]

[Text] Beijing, 28 May (XINHUA)—On the orders of the State Council of the People's Republic of China, this bank will issue coins in denominations of one yuan, fifty cents, and ten cents throughout the country beginning 1 June 1992.

It is hereby announced that the specifications, designs, and special features of the three coins are as follows:

1. The one yuan coin is made of steel with nickel plating. The color of nickel, the coin is round with serrated edges. It is 25 mm wide and 1.85 mm thick, and weighs 6.05 grams. The obverse side of the coin bears the national emblem of the People's Republic of China as the main design. Above the national emblem is the country's name, spelled in phonetic transcription of Chinese characters. Under the national emblem is the country name and symbolic date. The reverse side of the coin bears a depiction of a peony. On the right upper side of the peony design are Chinese characters representing the face value of "one yuan" and its equivalent spelled in phonetic transcription of Chinese characters.

2. The fifty cent coin is made of brass alloy. The round coin is golden in color with discontinuous serrations. It is 20.5 mm wide and 1.65 mm thick, and weighs 3.8 grams. The obverse side of the coin bears the national emblem of the People's Republic of China as a main device. Above the national emblem is the country name spelled in phonetic transcription of Chinese characters. Under the national emblem is the country name and symbolic date. The reverse side of the coin bears an illustration of plum blossoms as a main device. On the right upper side of the plum blossom design are Chinese characters

representing the face value of "fifty cents" and its equivalent spelled in phonetic transcription of Chinese characters.

3. The ten cent coin is made of aluminum alloy. The round coin is silver in color with enneagons on the margins of both the obverse and reverse sides. There are no serrations. It is 22.5 mm wide and 2.4 mm thick, and weighs 2.2 grams. The obverse side the coin bears the national emblem of the People's Republic of China as a main device. Above the national emblem is the country name spelled in phonetic transcription of Chinese characters. Under the national emblem is the country name and symbolic date. The reverse side of the coin bears an illustration of chrysanthemums as a main device. On the right upper side of chrysanthemums design are Chinese characters representing the face value of "ten cents" and its equivalent spelled in phonetic transcription of Chinese characters.

[Signed] Governor Li Guixian

[Dated] 27 May 1992

Hainan's Short-Term Loan Markets

92CE0437A Guangzhou GANGAO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST]
in Chinese No 3, 15 Mar 92 pp 14-15

[Article by Hainan Provincial People's Bank's Liang Yongqiang (2733 3057 1730) and Fu Fuzhi (4569 1133 0037): "Discussing Hainan's Short-term Loan Markets"]

[Text] The short-term loan market is mutual currency short-term financial activity conducted between banks and other financial organizations. It is horizontal financial activity that makes use of time differences, differences among banks, and territorial differences in the supply and demand of funds and is an extremely effective way of regulating and distributing funds. With reform and opening up and the intensification of reform of economic and financial systems, Hainan's short-term loan markets are becoming ever more lively. The end of 1986 and the beginning of 1987, the Hainan People's Bank took the lead in establishing the Haikou Banking Industry Short-term Loan Center. In January 1988, the short-term loan center was reorganized into the Hainan Finance Company and short-term loan activity flourished within the industry. In the last half of 1989, finance companies were rectified and the finance company industry came to a standstill, but short-term loan activity of the financial organizations continued. In 1990 finance companies were changed to stock system companies and short-term loan activity developed further. Presently, financial relations have been established and maintained with more than 20 financial markets (money markets) and banks in 29 provinces municipalities, and regions throughout the country. From 1987 through the first half of 1991, a total of 30 billion yuan in short-term funds was loaned out or borrowed, of which 7 billion yuan was borrowed from other provinces. Short-term loans are extremely useful in easing the contradiction in the supply

and demand for funds, ensuring that debts are cleared, assuring normal enterprise production, and promoting the development of the Hainan economy.

I. Characteristics of the Short-term Loan Market

Based on an analysis of short-term loan activity in the first half of this year, Hainan's short-term loan markets have the following characteristics:

1. More funds have been borrowed than loaned out, more has been borrowed from outside the province than from within the province, and less has been loaned outside the province than within the province. In the first half of this year, 4.55 billion yuan was borrowed, 60 percent more than the 2.85 billion yuan that was loaned out; the 2.48 billion yuan borrowed from outside the province made up 54.5 percent and the 2.07 billion yuan borrowed within the province made up 45.5; the 158.6 million yuan loaned outside the province made up 5.56 percent and the 2.69 billion yuan loaned within the province made up 94.46 percent. This indicates that there is a rather large gap in Hainan Province's credit funds and short-term loan funds are very useful in supporting Hainan Province's economic development.

2. The average monthly balance in borrowed funds is rather large, generally maintained at about 550 million yuan, indicating that there is a problem with long-term use of short-term funds.

3. A large share of short-term loans are from outside the system. In the first half of this year, the 4.87 billion yuan borrowed from outside the system made up 65.9 percent and the 2.52 billion yuan borrowed within the system made up 34.1 percent, indicating that market development is tending to mature and horizontal financing is active.

4. Nonbank financial organizations' share of short-term loans is greater than that of regular banks. Nonbank organization short-term loans made up 78 percent and [those from] regular banks only made up 22 percent. On the one hand, this indicates that nonbank financial organizations that cannot partake of the funds in the "big pot" are rather flexibly managed. On the other hand, it indicates that nonbank organizations' own funds are inadequate and they have a rather large funding gap.

5. Invisible short-term loans are primary and visible short-term loans are secondary. The vast majority of short-term loans are concluded from bilateral consultation (by correspondence or telephone) and rather few are handled through intermediary organizations.

6. The function of short-term loans is obvious. It is manifested in obtaining good results in such functions as: making up the differences that occur in bill exchanges, meeting temporary fund circulating requirements, settling arrearages, helping enterprises to resolve "triangular debts," assuring the temporary financial needs of key enterprises, and supporting the purchase and foreign trade export of agricultural byproducts.

II. Existing Problems in the Short-term Loan Market

The usefulness of Hainan's short-term loan market is attested to, but there still are some problems.

1. Broadening the range of sources of short-term loans. The short-term funds that banks and nonbank financial organizations can loan out are limited by law to deposits after they have met the provisions required for deposit reserve and retained funds. Its funding sources include such things as loans that can be called back when auditing cash funds, short-term loan funds that can be called back, what is left over from the reserve funds deducted from deposit growth that should be deposited in the People's Bank, the portion of the deductions that should be received in transaction within the system that should be paid out, and cash deposits. They have been strictly forbidden from using joint bank funds and Central Bank loans for short-term loans. But the sources of short-term loans for several financial organizations presently are the numerous temporarily unused or surplus Central Bank loans and funds in the plan distributed from higher level banks. Quite a few banks need only look carefully at the "bank situation" and see that there is money on the books and then loan it out, greatly expanding the scope of short-term loans.

2. Inappropriate use of short-term loan funds. By law, short-term loan funds may only be used to remedy inadequacies in bill clearing and deficiencies in joint bank cash remittances and to meet temporary fund circulation requirements, and it is strictly forbidden to use them to issue fixed asset loans. But presently a considerable portion of funds are being used to remedy credit fund gaps in hard currency and some is used to issue fixed asset loans. According to estimates of a typical survey, approximately 70 percent of Hainan Province's short-term borrowing is being used to remedy gaps in credit funds, 15 percent is being used to pay back short-term loans that have come due, 10 percent is being used to clear funds within the banking industry, and 5 percent is for "profiteering" to earn a profit differential. Some borrow long on short-term loans, and actually some short-term loan funds are "stagnant," giving rise to a debt crisis.

3. Lengthening the time limit on short-term loans. From the nature of the short-term loan market, the time limit on short-term loans should be rather short, with mainly daily compound interest and generally one month and not to exceed four months. United States federal fund short-term loans are generally limited to within three months and the longest for Japan does not exceed three weeks. Hainan Province financial organization short-term loan time limits generally are rather long. According to the estimates of a typical survey, those of one month or less make up only 30 percent and those as long as six months and even one year or more make up 70 percent.

4. Above quota short-term borrowing is rather serious. Some financial organizations do not consider their own

ability to pay off and borrow funds much in excess of the legal ratio of accounts balances and ratio of capital. For example, of the 20 urban credit institutions throughout the province, only six rely on attracting deposits to seek to balance on their own, the rest rely on short-term loans to remedy deficiencies in funds, and the number of short-term loans is rather large. The credit institutions of a certain city attracted 27.22 million yuan in deposits, loaned 54.8 million yuan, and borrowed 44.2 million yuan in short-term loans. One urban credit institution borrowed more than 10 million yuan in short-term loans in one month, more than 1000 percent in excess of its capital.

5. Using short-term loans to secure a designated loan with another region. Because the credit institutions in some cities by law cannot make an interregional loan, it is expedient to conclude an agreement with the other credit institution to make a designated loan as a short-term loan. Because it is impossible to directly control and administer these loans, they often cause funds to lie idle.

6. Using short-term loans to conduct business "off the record." Certain people in charge of financial organizations, turning their back on the unit and disregarding rules and regulations, take the unit's official seal and related credentials and, just like a money "purchasing agent," go all over making short-term loans and not entering the funds borrowed on the books, doing business off the record and pocketing the income.

7. Numerous unmortgaged and unguaranteed loans and serious arrearages. Short-term loans are not integrated with bill clearing and have not adopted a form of mortgage to ensure the interests of the creditor.

8. Interest rate controls tend to be lax. There is a rather large discrepancy between the interest on short-term loans with the same duration and the same expiration. Some because of a great deal of "profiteering," have very high interest rates, sometimes more than twice as high as the People's Bank daily short-term loan rate for regular banks. Because of this the loan interest rate is raised and the operating costs for financial organizations and enterprises are increased, pulling up inflation.

III. Improving the Short-term Loan Market Concept

Developing and improving Hainan short-term loan markets and conducting horizontal movement of funds are important parts of the intensification of reform of the economic and financial systems and are indispensable for developing the planned commodity economy, and important measures to resolve the contradiction in the supply and demand for funds and to encourage Hainan Province's development. To further improve short-term loan market mechanisms to better perform their financial function, it is necessary to start with the following aspects:

1. Establish membership system short-term loan markets led by the People's Bank. Since the People's Bank issued

the Banking Industry Provisional Procedures for Administering Short-term Loans, financial markets have been established everywhere throughout the country by membership systems that the People's Bank has taken the lead in organizing. These financial markets are commonly called "money markets." They are intermediary financial organizations mainly serving participants in the financial market network and responsible for short-term loaning and short-term borrowing, transfer and feedback of information on the supply and demand for money, and unified participation in short-term borrowing and loaning of constituent members of the financial market with other areas. Professionally the intermediary organization is directly subordinate to the leadership of the People's Bank and the People's Bank publishes periodic directives on short-term loan interest rates to direct the development of the short-term loan business. The organization should have a common membership fund provided by members as a base for the circulation of funds and should be in the network with the People's Bank's general headquarters' national financial market price quoting, trading, and information system. Based on the practical experience of the "money markets" of Yunnan Province and various other places, establishing a visible "money market" can solve the problem of the indirect control in the use of financial markets being rather weak because regular banks and other financial organizations form their own systems and issue their own short-term loans causing the People's Bank financial market administrative department to have incomplete control over short-term loans which is not helpful to administration and the People's Bank not reacting sharply because it does not have real control over short-term loans. Hainan Province's present finance companies do not all have the "money market" responsibilities and functions proposed by the People's Bank general headquarters. Finance companies as members of the new "money markets" would continue to perform their original functions.

2. Establish financial market administrative regulations appropriate to Hainan's actual situation. Although the People's Bank general headquarters has formulated Banking Industry Provisional Procedures for Administering Short-term Loans, they are just overall requirements formulated for the Central Bank to ensure the accomplishment of macrocontrols and the implementation of a financial policy. Hainan is a special economic zone and should have a more special preferential policy. In addition, the current Banking Industry Provisional Procedures for Administering Short-term Loans still lack the standard norms that should be observed among financial organizations in banking industry short-term loans. Thus, they should refer to the general headquarters Procedures and join them with the actual situation in Hainan to formulate such regulations as Hainan Administrative Regulations for Banking Industry Short-term Loans, Regulations on Financial Organization Short-term Loans and Responsibility for Structural Ratios, and Financial Administrative Procedures for Financial Markets. Implement regulations regarding such things as short-term loan units' qualifications; the

objects and principals of short-term loans and the scope of sources of funds; the proportion of financial organization short-term loans; intermediary organization administration and exchange of short-term loan intentions; expiration and interest rate consultations; appraisal of short-term loan agreements; methods of transfer of short-term loan accounts; dealing with funds being held up in process; penalties for overdue repayment or other violations of the contract; and arbiters for business disputes as well as risk guarantees and procedures for suits so that short-term loan activity can be ruled by law.

3. Reform the current credit fund administrative system. If we want to develop the short-term loan market, we should further reform the credit fund administrative system. First, regular banks should thoroughly break up "vertical" financial patterns and develop multichannel financial activity. Second, the People's Bank should reduce regular bank temporary loans and greatly develop the rediscount business. Moreover, the rate on short-term loan market short-term loans should be slightly lower than the rediscount rate to encourage regular banks to engage in short-term loan activity and avoid the continuance of partaking in the Central Bank "big pot" for funds.

4. Appropriately relax controls on short-term loans. Despite the fact that Hainan is right now undergoing a large scale development period, there is a shortage of funds and funds circulate rather slowly. So, relevant administrative regulations should clearly specify that the expiration on short-term loans can be expanded to six months and short-term loans can grant short-term circulating fund loans, but strictly forbid the granting of fixed asset loans. Short-term loan interest rates generally follow the market, but the Central Bank should periodically publish a directed interest rate for short-term banking loans based on the supply and demand for money at different times and the People's Bank reloan interest rate. The proportion of short-term borrowing to savings accounts and capital also can be appropriately higher than current regulations without allowing "profiteering" on funds.

5. Short-term banking loans should gradually develop negotiable instruments. Loans should generally use bank acceptance bills or negotiable securities as mortgage with People's Bank approval. Regular banks can sign and issue bills for short-term banking loans limited to financial organizations to strengthen the credit concept of both sides of short-term loans and reduce the risk of short-term loans.

6. Investment orientation of short-term loans should comply with the industry inclined policy. Short-term loans certainly must comply with Hainan and state regulations to be used to support places in urgent need of funds and to improve the economic results from short-term loans to the greatest extent.

Hainan's Securities Markets

92CE0437B Guangzhou GANGAO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST]
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[Article by Hainan Provincial Securities Company Chief Economist Zhang Baohua (1728 5508 5478): "Hainan Securities Market"]

[Text] **I. Present Status and Characteristics of Hainan's Securities Market**

1. Securities Exchange Organizations Begin To Take Shape

Hainan presently has twelve organizations with approval to conduct securities exchanges. Among these organizations, there are securities companies that specialize in the securities business and trust companies and securities exchange departments established in comprehensive banks that also engage in the securities business. In addition, there also is a group of securities exchange agencies to create the conditions for developing the securities business.

2. Increased Varieties of Securities

Hainan presently has the following varieties of publicly issued negotiable securities: treasury bills, capital construction bonds, key construction bonds, construction bonds, treasury bonds, guaranteed government bonds, special government loans, key enterprise debenture certificates, enterprise bonds, real estate investment bonds, enterprise short-term financial bonds, financial bonds, and large time certificates. There also are internal enterprise stocks that are not publicly issued. The increased varieties of securities provide investors with numerous choices.

3. Securities Issuing Markets Active, Issuing Volume Increases

Take the issuing of treasury bills for example. From January through July 1990, a total of 450.57 million yuan in various types of securities were issued, an increase of 327.82 million yuan over all of 1988, a 267 percent growth. From 1982 through July 1990, the entire province issued 2 billion yuan in various type securities.

4. Securities Transfer Market Takes Shape, Market Exchange Growth Rather Rapid

The varieties of securities presently being exchanged on the market by Hainan Province securities companies include treasury bills, guaranteed government bonds, capital construction bonds, financial bonds, large time certificates, and enterprise bonds. The 15.32 million yuan volume of security exchanges from January through August 1991 was an increase of 7.55 million yuan over 1990, a 97 percent growth. The entire province over the years has traded 100 million yuan in securities on the market.

5. Having established a preliminary securities market administrative system, exchange prices are gradually becoming reasonable.

II. Existing Problems

Presently, whether because of external conditions or as regards its own mechanisms, Hainan's securities market is not very perfect. So, the securities market has not been able to function very well. Its main problems are:

1. Errors in Understanding the Securities Market

The first of these is that some people believe that the securities market erodes bank saving accounts leading to the shrinking of bank credit, and is not conducive to the development of the banking industry. Some people believe that conditions still are not ripe to develop the securities market. The second error is that people purchase securities only as a means of saving to maintain the value of currency, but they cannot sell it before term to increase the value of currency. People's main concerns are the bonds' expiration and interest rate and people very seldom are concerned about whether the bonds can be transferred and circulated.

2. Varieties of Securities Issued Are Monotonous, Structure Irrational.

Among securities presently issued in Hainan, the greater share are state bonds. Local government bonds and publicly issued stocks are still absent. This is quite unsuitable for meeting the development needs of the Hainan special zone.

3. The securities transfer market is not developed, few varieties are transferred on the market, and the volume is small.

According to incomplete statistics, since 1982 throughout the province only about 5 percent of the total securities issued have been transferred on the market resulting in a pronounced contradiction in market supply and demand and investors lacking selection and an opportunity to compare and increasing investor risk.

4. The securities market structure is incomplete.

A complete securities market structure should include: (1) a responsible government organization—a securities administration commission; (2) an organization that has both service and administrative functions—a stock exchange and a securities and commerce trade association; (3) intermediary organizations—consignees, brokers, individual merchants; (4) service organizations—credit evaluation companies, accounting offices, legal offices, shareholder service companies, securities and investment trust companies, and securities and accommodation companies; (5) supervisory organizations—a securities market supervisory commission. But presently supervision and administration of Hainan's securities markets is not good and the functioning of the market is immature. The market cannot fully accomplish its functions and there is even a certain amount of confusion. In

addition, the vast majority of the securities exchange mechanisms are in Haikou. The majority of cities and counties do not even have an agency. This causes very uneven development of second class markets in various places, great discrepancies in securities prices between areas, rampant profiteering overlord activity by such people as bill vendors, and rampant cross-regional black market trading.

5. Securities exchange market mechanisms incomplete.

Securities issues (including methods, prices, and forms of issue) are insufficiently standardized. Securities credit grading is not standardized and credit grade evaluations are exaggerated and a system for making enterprise finances public still has not been implemented, which does not help investors choose securities. They lack staffs familiar with the laws governing the functioning of money markets and proficient in securities exchange operations. They especially lack a group of securities brokers who understand the business. With the exception of Hainan Provincial Securities Company, the other securities exchange organizations have rather inadequate technical facilities and equipment and backward operating methods not suited to market trading needs.

6. Sound securities market rules and regulations are lacking.

Although the state has promulgated Provisional Regulations for Administering Enterprise Bonds and the Circular on Increased Control of Stocks and Bonds, Hainan is a special economic zone and has its own special situation. The party Central Committee and the State Council also have granted Hainan a great many preferential policies. We should use these policies to formulate securities rules and regulations that conform to international practice and conform to Hainan's actual situation. Unfortunately, this task has been delayed, affecting the growth and development of Hainan's securities market.

III. Dealing With Further Development of Hainan's Securities Market

The main body of investors (traders), the object of investment (financial instruments), the market structure, and rules and regulations are the four principal factors in the securities market. For the growth and development of the securities market we must concentrate our efforts to build on these four factors.

1. Do a good job of developing the market structure.

Shenzhen and Shanghai's experience teaches that incomplete mechanisms can cause the market to function chaotically. For example, if the administrative organization lacks authority, government decrees cannot be effectively implemented; if there are no efficient intermediary organizations, securities cannot be issued and exchanged; if there are no service organizations, it could affect the quality of the exchange; if there are no oversight organizations, there cannot be effective supervision to investigate and punish violations of law and discipline

and ensure the sound functioning of the market. So, we must first establish a sound system of market organizations. First, we must establish a government organization in charge—a securities administration commission. Second, we must establish a stock exchange and a securities and commerce trade association. Third, we must improve intermediary organizations and strive to have all cities and counties establish securities exchange organizations or agencies and achieve a network of organizations. Fourth, we should establish credit evaluation companies and securities and investment consultation companies and such service organizations as investment trust companies and securities monetary circulation companies. Fifth, we should establish a securities market oversight commission and establish administrative procedures and systems, clearly define responsibility, and strengthen control.

2. Set up securities market rules and regulations.

After reviewing Shenzhen's and Shanghai's experiences, we should consult effective laws and systems of some foreign and Hong Kong businesses and as quickly as possible formulate a series of rules and regulations such as a Company Law, an Investment Law, a Securities Law, an Exchange Law, a Brokers' Credentials Law, a Bills Law, and a Securities Exchange Law and enact standards for the conduct of stock companies, securities administration and oversight organizations, intermediary organizations, stockholders, and brokers and provide penalties for breaking rules and regulations so that the securities market can be administered by law to ensure the normal and healthy functioning of the market.

3. Expand the varieties of securities on the market.

Only when the varieties of securities reach a certain volume and those exchanged on the market reach a certain scale can we form a market and only then will it be helpful to enterprises to raise investments on the market and be helpful to the Central Bank to conduct macroeconomic controls. So, the varieties of securities on the market in addition to national bonds should be expanded to such varieties of securities as financial bonds, enterprise bonds, large transferable certificates of deposit, bills of exchange, negotiable instruments, acceptance bills, promissory notes, buy back agreements, local government bonds, development bonds, and key enterprise bonds as well as stocks issued to society. Adding to the volume of varieties and the scale of exchanges are to satisfy the demands of investors or purchasers. The scale of securities on the market, the stipulation of the form of securities and their issuance, form of transfer and negotiability should conform to international practice so that the operation of the securities market can be established on a strict, scientific basis.

4. To expand the issuing market and open up the circulation market and accomplish the coordinated development of the two in securities issues, we must first reform the system of the issuance of national bonds relying on apportionment and have investors freely offer

to buy them. Secondly, we must appropriately issue some local government bonds and key construction bonds and make investment in the form of securities. Thirdly, we must organize a group of enterprises with high prestige and good results to issue stocks and bonds and open a channel for enterprises to raise investments, improve the trustworthiness of securities, and advance the development of the securities market to a new stage. Regarding the circulation of securities, in addition to putting forth a great effort to develop the national bond circulation and transfer business, we should expand the varieties and the volume of securities newly coming on to the market. We should especially do a good job of circulating and transferring enterprise stocks and bonds to increase the liquidity of securities.

5. Improve the grading of securities.

To ensure the quality of securities on the market and protect the interests of investors we must improve the grading of securities. First, we must establish an authoritative comparatively detached credit evaluation company. Its staff should be formed from economic and financial experts. Secondly, we should adopt advanced international and domestic standardized evaluation methods and indexing systems to improve the accuracy, scientific nature, fairness, and universality of the grades.

6. Improve the training of securities management and administrative personnel to accelerate the modernization of market operating methods.

Use computers and other advanced technological facilities and equipment to set up a national and a provincial automatic securities exchange price quoting system to make for keen information, accurate feedback, and excellent service to satisfy the multiple requirements for the operation of the market.

7. Set up scientific securities market adjustment mechanisms.

Securities market adjustment is based on the effect of two kinds of mechanisms, i.e. the market mechanism's self adjustment and the planning mechanism's conscious adjustment. We need to set up a mechanism that organically combines the planned adjustment and the market adjustment. To coordinate the two, first the Central Bank must coordinate the development of the securities market based on the program for the development of the national economy and the financial development strategy and formulate a financial policy for macroeconomic control of securities market operations for a certain period using planning as a means of controlling the overall volume of securities issues and the overall scale of securities market growth and use planning guidance and parameters to adjust and control the volume and structure of securities and the orientation, volume, and structure of securities circulation. Secondly, it should be the government's desire to accomplish control of the securities market through the Central Bank. They must not use administrative means in place of the Central Bank's control function. Thirdly, determine the

operation of the securities market and market prices based on economic laws and market supply and demand and reduce the use of direct methods and mainly use indirect adjustments.

8. Gradually establish a complete international securities market with special zone characteristics.

To meet the the Hainan special zone's requirements to further reform and opening up, raise foreign investment for development, and develop a foreign oriented economy, Hainan should set out now to consult the international experience and lessons of securities markets in various countries in the world and establish a mature, complete international securities market with Chinese special zone characteristics, permit foreign investors to purchase Hainan stock, enterprise bonds, and related financial products, and open the securities market to foreign investment trust funds.

9. Improve publicity and dissemination of securities and investment information.

We should use various types of publicity tools to disseminate information in such areas as securities, securities exchange operations, and investment risks and improve the masses' awareness of finance and investment and correctly guide investment and speculation and promote the healthy growth of the securities market.

INDUSTRY

Journal on Steel Industry Economic Returns

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[Article by the Metallurgical Economic Development Research Center: "Analysis of Economic Returns of Iron and Steel Industry and Eight Major Steel Works During Seventh Five-Year Plan"; edited by An Luming (1344 6424 2494)]

[Text] I. Analysis of Iron and Steel Industry Economic Returns During Seventh Five-Year Plan

During the Seventh Five-Year Plan, the gross output value of the iron and steel industry was 278.22 billion yuan, 48.21 percent above the Sixth Five-Year Plan, or an average growth of 7.05 percent a year. Sales amounted to 429.562 billion yuan, up 120.44 percent, an annual average of 16.15 percent. Realized profits and taxes totaled 89.045 billion yuan, up 85.34 percent, an average of 5.90 percent a year; and realized profits amounted to 45.04 billion yuan, up 35.9 percent. An average annual increase of 8.51 percent was registered in the first three years of the Seventh Five-Year Plan but, during the last two years an average drop of 20.53 percent was registered. The amount of profits and taxes turned over to the state increased by 82.28 percent to 59.853 billion yuan, an average of 8.21 percent a year. Profits actually retained by enterprises amounted to 13.946 billion yuan,

up 42.64 percent, but dropped by an average of 11.18 percent a year in the years 1987, 1989 and 1990.

From Table 1, we can see the following notable features in the development of the iron and steel industry during the Seventh Five-Year Plan: Increases in output value and sale proceeds were registered year after year, showing that production and sales were steadily on the rise. However, realized profits and taxes and realized profits first rose, then dropped, and profits retained by enterprises also showed a substantial drop.

The principal reasons for the substantial drop in profits in 1990 are as follows:

1. The profit composition had undergone great changes. A comparison between profit composition in 1990 and in the overheated 1988 is given in Table 2.

In 1988, profits attributable to increased production and sales amounted to 1.287 billion yuan, or 13.66 percent of the total profit increase. In 1990, profits attributable to increased production and sales only amounted to 231 million yuan, or 2.99 percent of the total profit increase. This shows that due to changes in the external economic situation, sluggish sales, and other factors, increased profits no longer came from increased production alone. The proportion of profit increase attributable to greater varieties, better quality, and reduced material consumption expanded. Objectively speaking, unfavorable factors like the 1988 price readjustment as well as increases in the cost of raw and semifinished materials, fuel, and transportation amounted to 5.822 billion yuan, while favorable factors like price increases for metallurgical products amounted to 5.568 billion yuan. All in all, unfavorable factors produced by price raises only amounted to 254 million yuan in 1988. In 1990, unfavorable factors produced by increases in the cost of raw and semifinished materials, fuel, and transportation amounted to 8.387 billion yuan, while favorable factors produced by price increases for metallurgical products only amounted to 3.767 billion yuan. All in all, unfavorable factors amounted to a hefty 4.62 billion yuan.

From the above analysis, we can see that iron and steel enterprises can no longer stick to the beaten track of striving for "quantity-oriented" and "price-oriented" returns but must shift to a practice which centers round "quality, variety, and efficiency."

To rationalize the price relations between different products in future price reforms, it is still necessary to substantially increase the cost of upstream products (such as coal, electricity, and transportation). However, as far as iron and steel products themselves are concerned, only necessary price readjustments should be made. Thus, enterprises must make vigorous efforts to reduce consumption, improve the quality of products, and expand and increase the product mix.

2. As a result of increases in tax types and tax rates, a considerable portion of profit was turned into taxes. A comparison between the Seventh Five-Year Plan and the

Sixth Five-Year Plan shows that a considerable portion of the profits of enterprises was converted into taxes due to constant increases in tax types and tax rates. The composite tax rate for the whole trade was 7.65 percent during the Sixth Five-Year Plan but increased by 2.64 percentage points to 10.29 percent during the Seventh Five-Year Plan. Calculated on the basis of the composite tax rate for the Sixth Five-Year Plan, 11.341 billion yuan in profits were turned into taxes during the Seventh Five-Year Plan, or an average of 2.268 billion yuan a year, reaching a high of 2.87 billion yuan in 1990. This was an important reason for the drastic drop in profits. According to Benxi Iron and Steel Company statistics, 11 types of new taxes and charges were introduced by the central and local authorities between 1988 and 1990. These included budget regulation fund, stamp duty, price regulation fund, forestry development fund, grain and oil regulation fund, and land-use tax.

3. Awareness of the need to practice cost control was weakened and costs rose steadily. During the past two or three years, double-digit cost increases have been registered. Cost increases were 13.08 percent in 1988; 21.11 percent in 1989; and 12.92 percent in 1990. After allowing for increases in the cost of raw and semifinished materials, fuel, and transportation, costs still registered increases of 1.7 percent, 4.16 percent and 1.28 percent, respectively, over the three years. This shows that the reason rests with the enterprises themselves. According to a cost analysis for the whole trade, cost increases due to internal factors accounted for 30.6 percent, 22.7 percent, and 24.1 percent of the total cost increase in 1988, 1989 and 1990 respectively, an average of 25.8 percent.

An analysis of material consumption, which accounts for over 70 percent of the cost structure, is made in Table 3.

We have worked out the following two assumptions based on several material consumption indices of key enterprises: If units with relatively poor performance have all reached an average standard, it is possible to reduce material consumption by 693 million yuan. If units with relatively poor performance have all reached an advanced standard, the value of materials saved will amount to 1.457 billion yuan. These will account for 7.1 percent and 14.9 percent, respectively, of the current year's total increased costs of 9.767 billion yuan for comparable products.

Some of our principal technical and economic indices are a long way behind international advanced standards. For instance, composite energy consumption for each ton of steel in China is 30 to 40 percent higher than the average in advanced countries. Our comprehensive completion rate from ingot to rolled steel is 83 percent but, in Japan, it is already as high as 93 percent.

In 1990, the production cost of key iron and steel works (production cost minus the cost of raw materials, fuel, and power ordered from outside) was 15.703 billion yuan, 19.15 percent more than the 13.179 billion yuan in

1989, while gross industrial output value only rose by 3.44 percent in the same period. With the price index up by 2.1 percent, expenses should be up by 1.784 billion yuan. Even if other necessary cost increases are calculated at 50 percent discount, costs should have been increased by at least 892 million yuan.

4. Returns on investment dropped. The following is a comparison of returns on investment in fixed assets in the iron and steel industry during the Seventh and Sixth Five-Year Plans:

| | Additional Profits, Taxes (1 billion yuan) | Investment in Fixed Assets (1 billion yuan) | Rate of Returns on Investment (yuan/yuan) |
|----------------------------|--|---|--|
| Sixth Five- Year Plan | 33.852 | 29.169 | 1.1605 |
| Seventh Five- Year Plan | 40.604 | 65.785 | 0.6172 |

Investment in fixed assets during the Seventh Five-Year Plan was 1.26 times more than during the Sixth Five-Year Plan, while additional profits and taxes only increased by 19.95 percent. In other words, the ratio between input and output dropped by 46.8 percent from 1:1.1605 to 1:0.6172. In addition to problems like the loss of macroeconomic control and mismanagement, mistaken policy decisions, and the one-sided pursuit of speed are also factors not to be overlooked. Some enterprises did not carry out technical renovation within the limit of their resources, did not pay attention to investment returns, indiscriminately launched new projects, and rashly put up establishments. As a result, investment was dispersed, the construction cycle became over-extended, and many projects remained half-finished. The input-output returns were poor and debts mounted. This is an important reason for the drop in economic returns toward the latter part of the Seventh Five-Year Plan.

II. Comparison Between Economic Returns of Eight Key Steelworks

In 1990, the original value of the fixed assets of Anshan, Wuhan, Shoudu, Benxi, Baotou, Taiyuan, Maanshan, and Panzhihua, the eight key iron and steel enterprises in China, amounted to 41.761 billion yuan, or 37.47 percent of the whole trade. Their steel output amounted to 27.45 million tons, 41.4 percent of the whole trade. Realized profits and taxes amounted to 8.53 billion yuan, or 48.06 percent; while profits and taxes turned over amounted to 6.019 billion yuan, or 45.39 percent. They occupy an important position in the whole iron and steel industry. During the Seventh Five-Year Plan, product cost was lower than that of other enterprises and input-output returns were higher. Things have changed over the past two years. Some are still reporting increasing returns but for some, returns are on the decline. Although it is not always possible to draw comparisons because they do not share the same conditions in the way of resources, equipment, and scale of

production and do not have the same product mix, they are in fact comparable in that they are all conglomerates and operate under roughly the same environments and conditions. We can get some insights from comparisons between them. Tables 4 and 5 show, in the light of assessment based on multiple indices, how the eight key iron and steel enterprises compare with one another in terms of economic performance and returns on fixed investment.

From Table 4, we can see that the economic performance of the Shoudu Iron and Steel Company was the best. In 1990, it was above the average of the eight key steel works in all 10 economic performance indices which reflected input-output returns, coming first on eight counts. In particular, its profit rate on funds and profit and tax rate on funds calculated at the original value of fixed assets were as high as 29.41 percent and 46.81 percent, 1.5 times and 2.2 times higher, respectively, than the average for the eight key steel works. The Wuhan Iron and Steel Company was second only to the Shoudu Iron and Steel Company. The "double target rate" [shuang biao lu 7175 2871 3764], or rate of rolled steel that has reached the "double target," was as high as 91.53 percent, while metallic material consumption for converters was 1,112 kg per tonne. In both cases, the Wuhan Iron and Steel Company topped the eight key steel works. With the exception of the comprehensive completion rate from ingot to rolled steel, which ranked third, the Wuhan Iron and Steel Company came second in the seven remaining indices, all above the average for the eight key steel works. The Maanshan Iron and Steel Company came third. Its comparable energy consumption for each tonne of steel was 19.3 kg per tonne below the average for the eight key steel works. Its cost rate on sale proceeds and "double target rate" for rolled steel were 2.85 and 5.4 percentage points respectively above average, while its profit rate on funds was close to the average for the eight key steel works.

A comparison between the production and performance indices of the eight key steel works in absolute terms is made in Table 6.

From Table 6 we can see that, in absolute terms, the Shoudu Iron and Steel Company came third and second, respectively, in gross industrial output value and proceeds of sale, but came first in realized profits and taxes, realized profits, and profit retention. With gross industrial output value and proceeds from sales coming second and third, the Wuhan Iron and Steel Company came second in realized profits and profit retention. The Maanshan Iron and Steel Company came seventh in gross industrial output value and sixth in proceeds of sale, but fourth in terms of profits and taxes turned over to the state and fifth in profit retention. The economic performances of these three enterprises are considered good.

Under the grim economic situation in 1990, the economic returns from the Shoudu Iron and Steel Company not only did not decline but showed signs of an upswing.

This was by no means fortuitous. As development during the Seventh Five-Year Plan shows, steel output increased by 69.3 percent from 2.57 million tonnes in 1985 to 4.35 million tonnes in 1990 at an annual average rate of 11.05 percent, 1.77 times higher than the average rate of 3.99 percent for the other seven key steel works. Realized profits and taxes increased from 1.114 billion yuan in 1985 to 2.626 billion yuan in 1990, the highest for the whole trade, at an average rate of 18.7 percent a year, 2.4 times higher than the average rate of 5.5 percent for the other seven key steel works. Profits and taxes turned over to the state increased from 783 million yuan in 1985 to 1.499 billion yuan in 1990 at an average rate of 13.9 percent a year, nearly double the average rate of 7.2 percent for the other seven key steel works. Shoudu Iron and Steel Company was able to achieve high input-output returns because it changed its operational mechanisms, acquired the ability to build up its accumulation and develop itself, and made the right decisions in technical renovation, production, and operation.

The Wuhan Iron and Steel Company increased its economic returns considerably during the Seventh Five-Year Plan by persistently following the performance-oriented road of development. During those five years, the company produced 22.12 million tonnes of steel, 40 percent more than during the Sixth Five-Year Plan. Its output of rolled steel was 21.49 million tonnes, up 69 percent. It realized profits and taxes totaling 8.007 billion yuan, double the 4.02 billion yuan during the Sixth Five-Year Plan; turned over 5.795 billion yuan to the state in profits and taxes, 92.5 percent more than the 3.011 billion yuan during the Sixth Five-Year Plan; and it invested 2.561 billion yuan in fixed assets, 1.2 times more than the 1.166 billion yuan during the Sixth Five-Year Plan (with another 900 million yuan available for use from the depreciation fund, new product development fund, and welfare fund, making a total of over 3.4 billion yuan). It also attached great importance to technical renovation. Its comprehensive productive capacity increased from "double four million tonnes" to "double five million tonnes," and its return on investment was 1:1.5536, ranking second among the eight key steel works.

The Maanshan Iron and Steel Company was able to maintain satisfactory economic returns during the Seventh Five-Year Plan. Although it encountered many difficulties in 1990, it still managed to overcome the weak links in production and increase the comprehensive productive capacity thanks to the coordinated efforts of the staff and workers of the whole company. It strengthened management, repeatedly tapped potential, made efforts to eradicate and overcome unfavorable external factors like price raises, and ultimately succeeded in steadily increasing its overall returns. During the Seventh Five-Year Plan, its gross industrial output value was 37.73 percent up compared with the Sixth Five-Year Plan, representing an average annual growth rate of 7.14 percent. Its proceeds from sale rose by 106.73 percent, or 16.59 percent a year; realized profits

and taxes rose by 64.46 percent, or 7.69 percent a year; profits and taxes turned over to the state rose by 33.39 percent, or 4.02 percent a year. It raised 1.413 billion yuan for investment in fixed assets (investment from other sources amounted to 281 million yuan) and completed the necessary projects on schedule with a view to achieving a "double two million tonne" capacity in the production of iron and steel.

During the Seventh Five-Year Plan, other key steel works also increased their returns to varying degrees. For instance, the Anshan Iron and Steel Company achieved progress in improving its product quality, saving energy, and reducing material consumption. The Taiyuan Iron and Steel Company made improvements in its returns on investment in fixed assets and labor productivity. The Benxi Iron and Steel Company managed to achieve a higher comprehensive completion rate from ingot to rolled steel and a "double target rate." The Baotou Iron and Steel Company achieved better returns on investment in fixed assets and the Panzhihua Iron and Steel Company was able to reduce its material consumption. Of course, there are incomparable factors in horizontal comparisons of this kind. For instance, although the Panzhihua Iron and Steel Company has indeed improved its economic returns in recent years, it is subject to greater restrictions in the supply of cokes and titanomagnetite than other enterprises. It has greater difficulty smelting iron because the average grade of its smelting ores is only 46 percent. It is weak in its rolling capacity and its product mix is rather simple. It mainly produces heavy-duty tracks and a small quantity of purpose-built rolled steel. Very few of its products have a high added value and, each year, about one-third of its blooms have to be relocated to other units. These have all affected the company's economic returns in a significant way. As far as returns on investment in fixed assets are concerned, the Panzhihua Iron and Steel Company did quite well, having achieved an input-output ratio of 1:1.696 for its fixed assets during the Sixth Five-Year Plan. Due to the commencement of the second phase of construction and the completion of the No. 4 Blast Furnace during the Seventh Five-Year Plan, and the launching of the hot-rolling plant toward the latter half of this period, much of the returns on investment will not be realized until the Eighth Five-Year Plan.

Throughout the Seventh Five-Year Plan and in the year 1990, the eight key steel works, particularly the Shoudu, Wuhan, and Maanshan Iron and Steel Companies, have all distinguished themselves by improving their economic returns. Their basic experience may be summed up in the following four points:

1. Establish a guiding ideology with economic returns as the central issue and give first priority to the improvement of economic returns in the work of enterprises. In this regard, the experience of the Shoudu Iron and Steel Company is of great significance as a typical model. First, in the 10 years since the implementation of the contract system, the Shoudu Iron and Steel Company has taken the achievement of a 20 percent annual

increase in profits as the overall target for its economic returns. Under the guidance of this overall target, the company organized the launch of various projects and mobilized all its staff members and workers to fight for its realization. It was on the basis of this overall target that the company mapped out its intermediate and long-term plans as well as annual plans of development, using the annual plans to dovetail its short-term plans and intermediate and long-term plans, and using monthly and daily progress schedules to ensure the fulfillment of annual plans. By constantly striving to strike a balance between different plans and promptly acting on problems discovered, it was able to ensure a fairly high growth rate these past years. Second, it persisted in tapping its potential and ensured the realization of the targeted economic returns by achieving high efficiency and low consumption. Some of the comparable technical and economic indices of the Shoudu Iron and Steel Company were the best among its counterparts. For instance, its comparable energy consumption for each tonne of steel was 900 kg in 1990, six kg less than in the previous year and the lowest among the eight key steel works. Its blast furnace utilization coefficient was 2.412 tonnes/cubic meters a day, the highest in the country and among the best in the world. The annual output figures for the three 30-tonne converters in the No.1 Steel Mill, the 850 bloomers in its blooming mills, and the 300 small rollers in its small mills all exceeded their respective designed capacities by two or more times, having reached or surpassed the advanced levels of similar enterprises abroad. Thus, the cost of the iron, steel, and rolled steel produced by the Shoudu Iron and Steel Company is the lowest in the whole trade. Third, the determination of the scale of construction and renovation, the choice of equipment level, the setting of renovation priorities, and the scheduling of construction and production were all subordinated to the target of a 20 percent increase in profits each year. This ensured the progressive increase in capital and yielded quick results.

For instance, in 1979, when reform first began, the entire production and development fund was six million yuan, and investment in technical renovation averaged 170,000 yuan per project. Single-item investment in technical renovation project was 572,000 yuan during the Sixth Five-Year Plan and 2.522 million yuan during the Seventh Five-Year Plan. The principle of working within one's capability, continuously valorizing one's capital, and getting development rolling was upheld. Big projects were carried out in stages in an effort to recover cost by stages. Every effort was made to avoid getting embroiled in a "war of attrition" that would make it impossible to recover costs over the longterm. For instance, the No. 2 Steel Works (with two 210-tonne converters and three continuous casting machines) was built at a total cost of 824 million yuan. Construction was carried out in three phases and yielded returns upon the completion of each phase. Thus, 42 percent of investments were recovered over the four-year construction period. In the first half of 1991, a project was launched to overhaul the No. 2 Blast Furnace. According

to international practice, it would take at least 104 days to increase the furnace capacity from 1,327 cubic meters to 1,726 cubic meters. In its endeavor to achieve the target of increasing profits by 20 percent a year, the Shoudu Iron and Steel Company relied on the tightly-knit organizational form of the contract responsibility system, brought into play the creative spirit of the staff and workers as masters of the house, and applied network technology to miraculously reduce the number of work days to 55. It is understood that one day meant 2.59 million yuan in profits. One month after the blast furnace was put into production, the coefficient of utilization was 2.5 tonnes/cubic meters a day. Today, it has risen to over 2.8 tonnes/cubic meters a day.

2. Bring into play the prowess of science and technology as primary productive forces, make continuous efforts to utilize new techniques and technologies, and speed up technical renovation in enterprises. In order to improve quality, develop varieties, reduce material consumption, and increase efficiency, the fundamental answer lies in technological advances. With their current financial difficulties, how can enterprises promote technological advances with limited funds? First, they must rely on themselves for development and strive to yield bigger returns and faster results with small input. Take, for instance, the new ore dressing technique of "magnetic aggregation" jointly developed by the Shoudu Iron and Steel Company and the Scientific Research Institute under the Ministry of Geology. Using this technique and the principle of optimization, the Shoudu Iron and Steel Company was able to maintain a high grade of 68.5 percent for its concentrate ore powder and increase output by 25.5 percent to 1.03 million tonnes a year. Within a short span of four months, it was able to recover all the 8.16 million yuan invested. Thanks to improved raw materials and efforts to raise the blast furnace utilization factor and coke ratio to advanced levels, prior production cost was reduced by a big margin and overall returns were increased. Second, it is necessary to stress assimilation to suit local needs in importing advanced technologies and equipment from abroad. For instance, Shoudu Iron and Steel Company imported a 210-tonne converter in the mid-1980's at a cost of \$12.5 million, only a fraction of the cost of a new system. After modification and adaptation, two computer-controlled eight-flow continuous casting machines for small steel billets and a two-flow continuous casting machine for plate slabs were installed. These machines, up to the advanced levels of the 1980's, enabled the company to achieve complete continuous casting. The converter began producing steel 22 months after the contract was concluded. By the end of 1989, the entire project was completed. In 1990, steel output reached 1.495 million tonnes and the output of steel billets and plate slabs totaled 2.55 million tonnes, with profits amounting to 407 million yuan. Third, it is easier to achieve the anticipated results by carrying out the necessary renovations to form a complete production network. The Semi-Continuous Casting Plant, Cold-rolling Mill, Seamless Pipe Plant, No. 1 Blooming Mill, and No. 1 Steel Plate

Plant have all been renovated with this in mind. The input-output ratio for these projects is over 1:2. All these have contributed significantly toward improving quality and varieties, reducing material consumption, and getting the best from equipment.

3. Efforts must be made to increase one's awareness of the need for better management, strengthen enterprise management, and stress overall benefits and comprehensive returns. Taking the economic responsibility system as the core, the Shoudu Iron and Steel Company started off by strengthening the groundwork and work at the grass-roots level in forming a total responsibility network embracing all staff and workers and all work. The responsibility of individual staff members and workers is closely tied to earnings. With distribution carried out in proportion to responsibility and contributions, and abolition of the practice of "everybody eating from the same big pot" in the enterprise, the enthusiasm of all staff and workers for production and work has been fully aroused. The Shoudu Iron and Steel Company attaches great importance to overall benefits, urging all departments and secondary organs to subordinate to the overall interests of the company and to strive for the overall benefits of the company. If certain company principal indices are not fulfilled, no one in the company will receive any bonus. If certain principal indices of a secondary factory (mine) are not fulfilled, the whole factory (mine) will not be eligible for bonuses. This way, all staff and workers will work with one heart and one mind for the overall benefit of the company.

In its operation and management, the Shoudu Iron and Steel Company carries out appropriate decentralization to ensure a given degree of flexibility. At the same time, it also emphasizes the need for highly centralized decisionmaking and direction. It is quick in command and has the authority to enforce prohibitions. It also gives continuous prominence to and intensifies total quality control. An "integrated" quality assurance system which covers all rolled steel products has been established and perfected. This system has been extended to cover the supply of raw and semifinished materials and after-sales services to ensure total quality control. Meanwhile, a quality responsibility system which spells out the quality guidelines and which is tied to 30 percent of the total wages, has been established. In order to truly exercise their veto power on the question of quality, units which fail to measure up to this requirement will have this portion of wage withheld.

4. It is necessary to change the operational mechanisms in order to truly invigorate enterprises. The fundamental reason for the high input-output returns in Shoudu Iron and Steel Company is in its vitality. From where does the vitality of the Shoudu Iron and Steel Company come? The external reason lies in state policies favorable to changing operational mechanisms and strengthening internal vitality. The internal reason lies in the fact that the company has made good use of these favorable policies and promoted the overall improvement of the

internal operational mechanisms and work by conducting reforms on drawbacks fettering the development of productive forces in publicly-owned enterprises. The basic experience of this company is: First, the appropriately determined interests of the state and the enterprise as well as the distribution between the two. This means that, on the premise of ensuring a steady increase in state revenue, a motivation mechanism enabling the enterprise to create more, yield more, and retain more was introduced. This encouraged the enterprise to continuously enlarge the "cake" through operational mechanisms encouraging self-development based on management autonomy, thereby enabling the state, the enterprise, and the staff and workers to gain more and bringing the enterprise into a benign cycle of development. Second, the maintenance of relative stability in the pattern of distribution of benefits between the state and the enterprise. After the approval of its contract proposal, the Shoudu Iron and Steel Company is no longer in a position to arbitrarily change the relations of distribution between the state and the enterprise. This proposal is special in that it fixes the base figures, ensures the amounts to be turned over to the state, allows for the full retention of all above-quota profits, and demands sole responsibility for losses. In other words, it is fixed at one end but open at the other. The company has to depend on additional profits, rather than the state, for its development and for increases in the welfare funds and income of staff and workers. This has produced pressure as well as the motivation for "relying on self exertion" in striving by all and every means to increase input-output returns. Third, a long contract term. The fact that the contract spans 15 years enables the enterprise to combine near-term and long-term development and local and overall development, take past and future factors into consideration, make overall arrangements, and avoid short-term actions. It is precisely because it has an environment of long-term stability, clearly mapped out return targets, and it has made overall arrangements for production and operational activities in the long term around the central task of increasing economic returns, that the Shoudu Iron and Steel Company has been able to sustain big increases in economic returns.

The change of operational mechanisms essentially means that enterprises are to change from product producers into commodity producers enjoying management autonomy, bear the responsibility for their own profits and losses, and have the ability to develop and control themselves. In this change, the Shoudu Iron and Steel Company has paid special attention to conducting supporting reforms on the internal distribution system, leadership structure, cadre system, democratic management and other systems, thereby making the decision-making process more scientific and democratic. It has abolished the life tenure for cadres, the practice of having "iron armchairs," and promoted qualified persons without sticking to one pattern. It has also put into practice the method of distribution according to work and introduced the relevant assessment systems, establishing and improving a number of systems for the democratic management of the enterprise. All these are major issues which have to be addressed in the intensification of reform. They are also fundamental ways for enterprises to increase their economic returns.

Table 1: Performance, Profits and Taxes of Steel Industry During Sixth and Seventh Five-Year Periods Plans
(Unit: 1 billion yuan)

| | Aggregate Total for 6th 5-Year Plan | 1985 | 1986 | 1987 |
|--|--|--------|--------|--------|
| Gross industrial output value | 187.714 | 44.030 | 48.918 | 53.470 |
| Sales Proceeds | 194.809 | 51.430 | 61.577 | 72.407 |
| Realized profits and taxes | 48.044 | 13.322 | 14.816 | 16.456 |
| Realized profits | 33.141 | 8.127 | 8.660 | 9.088 |
| Profits and taxes turned over | 32.836 | 8.939 | 10.043 | 10.946 |
| Profits actually retained by enterprises | 9.777 | 3.058 | 3.309 | 3.016 |

| | 1988 | 1989 | 1990 |
|--|--------|---------|---------|
| Gross industrial output value | 55.129 | 58.513 | 62.190 |
| Sales proceeds | 86.558 | 100.301 | 108.719 |
| Realized profits and taxes | 19.196 | 28.829 | 17.746 |
| Realized profits | 10.536 | 10.102 | 6.654 |
| Profits and taxes turned over | 12.144 | 13.460 | 13.260 |
| Profits actually retained by enterprises | 3.387 | 2.565 | 1.690 |

| | Aggregate Total for 7th 5-Year Plan | Increase Over 6th 5-Year Plan (percent) | Rate of Increase (percent) |
|--|--|--|----------------------------|
| Gross industrial output value | 278.220 | 48.21 | 7.15 |
| Sales proceeds | 429.562 | 120.44 | 16.15 |
| Realized profits and taxes | 89.045 | 85.34 | 5.90 |
| Realized profits | 45.040 | 35.90 | -3.92 |
| Profits and taxes turned over | 59.853 | 82.28 | 8.21 |
| Profits actually retained by enterprises | 13.946 | 42.64 | -11.18 |

Table 2: Analysis of Profit Increase/Decrease Factors for Steel Industry in 1988 and 1990 (Unit: 1 billion yuan)

| | 1988 | | 1990 | |
|--|--------|---------|--------|---------|
| | Amount | Percent | Amount | Percent |
| Net increase/decrease compared with previous year | | 14.48 | | -34.48 |
| 1. Profit increase factors | 9.421 | 100.00 | 7.723 | 100.00 |
| Increase in sales volume | 1.287 | 13.66 | 0.231 | 2.99 |
| Changes in product mix | 1.226 | 13.01 | 1.099 | 14.23 |
| Quality improvement | 0.304 | 3.23 | 0.874 | 11.32 |
| Reduction in material consumption | 0.340 | 3.61 | 1.191 | 15.42 |
| Reduction in fixed cost due to increased output | 0.431 | 4.58 | 0.561 | 7.26 |
| Changes in price structure | 5.568 | 59.10 | 3.767 | 48.78 |
| Others | 0.265 | 2.81 | | |
| 2. Profit decrease factors | 7.973 | 100.00 | 11.171 | 100.00 |
| Increase in cost of raw materials, fuel, electricity, transportation | 5.822 | 73.02 | 8.387 | 75.08 |
| Exchange rate fluctuations | 5.822 | 8.387 | 75.08 | |
| | | | 0.357 | 3.20 |
| Increase in "two charges" | 2.065 | 25.90 | 2.129 | 19.06 |
| Others | 0.086 | 1.08 | 0.298 | 2.66 |

Table 3: Comparison between the Material Consumption and Economic and Technical Indices of Key Steel Enterprises in 1990

| | |
|--|-------------------------|
| 1. Comparable Energy Consumption for Each Ton of Steel: | |
| Average: | 977 kg of standard coal |
| Number of enterprises below average: | 6 |
| Quantity saved on average: | 486,300 tons |
| Amount saved on average: | 73 million yuan |
| Average advanced level: | 904 kg of standard coal |
| Number of enterprises below average advanced level: | 10 |
| Quantity saved at average advanced level: | 2.38 million tons |
| Amount saved at average advanced level: | 357 million yuan |
| 2. Material consumption by converters: | |
| Average: | 1,120 kg/ton |
| Number of enterprises below average: | 10 |
| Quantity saved on average: | 253,300 tons |
| Amount saved on average: | 152 million yuan |
| Average advanced level: | 1,103 kg/ton |
| Number of enterprises below average advanced level: | 14 |
| Quantity saved at average advanced level: | 490,000 tons |
| Amount saved at average advanced level: | 294 million yuan |
| Electricity consumption by electric furnace: | |
| Average: | 595 kilowatthours/ton |
| Quantity saved on average: | 70.45 million kwh |
| Amount saved on average: | 14 million yuan |
| Average advanced level: | 562.5 kilowatthours/ton |
| Number of enterprises below average advanced level: | 13 |

| | |
|---|--------------------|
| Quantity saved at average advanced level: | 181 million kwh |
| Amount saved at average advanced level: | 36 million yuan |
| 4. Comprehensive completion rate from ingot to rolled steel: | |
| Average: | 84.03 percent |
| Number of enterprises below average: | 4 |
| Quantity saved on average: | 349,000 tons |
| Amount saved on average: | 349 million yuan |
| Average advanced level: | 85.85 percent |
| Number of enterprises below average advanced level: | 5 |
| Quantity saved at average advanced level: | 606,800 tons |
| Amount saved at average advanced level: | 607 million yuan |
| 5. Rate of rolled steel that is up to standard: | |
| Average: | 98.60 percent |
| Number of enterprises below average: | 7 |
| Quantity saved on average: | 104,800 tons |
| Amount saved on average: | 105 million yuan |
| Average advanced level: | 99.00 percent |
| Number of enterprises below average advanced level: | 10 |
| Quantity saved at average advanced level: | 162,600 tons |
| Amount saved at average advanced level: | 163 million yuan |
| Total: Amount saved on average: | 693 million yuan |
| Amount saved at average advanced level: | 1.457 billion yuan |

Notes:

- Items 1, 2, 3 and 5 are calculated on the basis of all key steel works and major enterprises with electric furnaces listed on statistical charts which carry the above indices.
- Item 4 is calculated on the basis of figures for the eight key steel works listed on the statistical charts.

Table 4: Comparison of 1990 Economic Returns From Eight Key Steel Works on the Basis of Multi-indexed Evaluation

| Name of Index | Unit | Weight (percent) | Average for eight key steel works |
|--|------------------------|------------------|-----------------------------------|
| 1. Labor productivity (based on gross output value) | annual yuan per capita | 5 | 25538.75 |
| 2. Labor productivity (based on net output value) | annual yuan per capita | 5 | 16014.00 |
| 3. Rate of net output value in total wages | percent | 5 | 428.98 |
| 4. Profit and tax rate on funds (fixed assets at original value) | percent | 15 | 18.83 |
| 5. Profits on fund (same as above) | percent | 15 | 9.11 |
| 6. Cost rate on sale proceeds | percent | 20 | 76.27 |
| 7. Comparable energy consumption per ton of steel | kg/ton | 15 | 1002.30 |
| 8. Material consumption by converters | kg/ton | 5 | 1131.80 |
| 9. Comprehensive completion rate from ingot to rolled steel | percent | 5 | 84.15 |
| 10. "Double target" rate for rolled steel | percent | 10 | 74.51 |

| | Shoudu Iron and Steel Company | | |
|--|-------------------------------|---------|----------|
| | Target | Score | Position |
| 1. Labor productivity (based on gross output value) | 32124.00 | 0.06289 | 1 |
| 2. Labor productivity (based on net output value) | 28637.80 | 0.08942 | 1 |
| 3. Rate of net output value in total wages | 567.83 | 0.06618 | 1 |
| 4. Profit and tax rate on funds (fixed assets at original value) | 46.81 | 0.37289 | 1 |
| 5. Profits on fund (same as above) | 29.41 | 0.48425 | 1 |
| 6. Cost rate on sale proceeds | 64.10 | 0.23797 | 1 |
| 7. Comparable energy consumption per ton of steel | 900.10 | 0.16704 | 1 |
| 8. Material consumption at converters | 1126.60 | 0.05023 | 3 |
| 9. Comprehensive completion rate from ingot to rolled steel | 87.68 | 0.05210 | 1 |
| 10. "Double target" rate for rolled steel | 74.86 | 0.10047 | 5 |
| Total scores | | 1.68344 | 1 |

| | Wuhan Iron and Steel Company | | |
|--|------------------------------|---------|----------|
| | Target | Score | Position |
| 1. Labor productivity (based on gross output value) | 30333.00 | 0.5939 | 2 |
| 2. Labor productivity (based on net output value) | 18998.90 | 0.05932 | 2 |
| 3. Rate of net output value in total wages | 499.34 | 0.05820 | 2 |
| 4. Profit and tax rate on funds (fixed assets at original value) | 22.15 | 0.17645 | 2 |
| 5. Profits on fund (same as above) | 11.46 | 0.18869 | 2 |
| 6. Cost rate on sales proceeds | 68.45 | 0.22285 | 2 |
| 7. Comparable energy consumption per ton of steel | 980.00 | 0.15342 | 2 |
| 8. Material consumption at converters | 1112.00 | 0.05089 | 1 |
| 9. Comprehensive completion rate from ingot to rolled steel | 66.33 | 0.05130 | 3 |
| 10. "Double target" rate for rolled steel | 91.53 | 0.12284 | 1 |
| Total score | 91.53 | 0.12284 | 1 |
| Position | | 1.14335 | 2 |

| | Maanshan Iron and Steel Company | | |
|--|---------------------------------|---------|----------|
| | Target | Score | Position |
| 1. Labor productivity (based on gross output value) | 21899.50 | 0.04288 | 5 |
| 2. Labor productivity (based on net output value) | 14082.10 | 0.04397 | 4 |
| 3. Rate of net output value in total wages | 421.26 | 0.04910 | 4 |
| 4. Profit and tax rate on funds (fixed assets at original value) | 17.66 | 0.14068 | 4 |
| 5. Profits on fund (same as above) | 6.70 | 0.11032 | 4 |
| 6. Cost rate on sales proceeds | 73.42 | 0.20776 | 3 |
| 7. Comparable energy consumption per ton of steel | 933.00 | 0.15295 | 3 |
| 8. Material consumption at converters | 1156.00 | 0.04895 | 8 |
| 9. Comprehensive completion rate from ingot to rolled steel | 83.56 | 0.04965 | 5 |
| 10. "Double target" rate for rolled steel | 79.94 | 0.10729 | 4 |
| Total score | | 0.95355 | |
| Position | | | 3 |

| | Anshan Iron and Steel Company | | |
|--|-------------------------------|---------|----------|
| | Target | Score | Position |
| 1. Labor productivity (based on gross output value) | 25346.70 | 0.04962 | 4 |
| 2. Labor productivity (based on net output value) | 16949.70 | 0.05292 | 3 |
| 3. Rate of net output value in total wages | 459.22 | 0.05352 | 3 |
| 4. Profit and tax rate on funds (fixed assets at original value) | 13.54 | 0.10786 | 5 |
| 5. Profits on fund (same as above) | 5.60 | 0.09221 | 5 |
| 6. Cost rate on sales proceeds | 78.24 | 0.19496 | 5 |
| 7. Comparable energy consumption per ton of steel | 984.00 | 0.15280 | 4 |
| 8. Material consumption at converters | 1121.60 | 0.05046 | 2 |
| 9. Comprehensive completion rate from ingot to rolled steel | 84.43 | 0.05017 | 4 |
| 10. "Double target" rate for rolled steel | 87.42 | 0.11733 | 2 |
| Total score | | 0.92185 | |
| Position | | | 4 |

| | Taiyuan Iron and Steel Company | | |
|--|--------------------------------|---------|----------|
| | Target | Score | Position |
| 1. Labor productivity (based on gross output value) | 30190.80 | 0.05911 | 3 |
| 2. Labor productivity (based on net output value) | 9972.30 | 0.03114 | 7 |
| 3. Rate of net output value in total wages | 313.95 | 0.03659 | 6 |
| 4. Profit and tax rate on funds (fixed assets at original value) | 18.59 | 0.14809 | 3 |
| 5. Profit on fund (same as above) | 7.27 | 0.11970 | 3 |
| 6. Cost rate on sales proceeds | 94.90 | 0.16074 | 7 |
| 7. Comparable energy consumption per ton of steel | 1041.00 | 0.14443 | 6 |
| 8. Material consumption at converters | 1136.10 | 0.04981 | 5 |
| 9. Comprehensive completion rate from ingot to rolled steel | 74.85 | 0.04447 | 7 |
| 10. "Double target" rate for rolled steel | 58.60 | 0.07865 | 7 |
| Total score | | 0.87273 | |
| Position | | | 5 |

| | Benxi Iron and Steel Company | | |
|--|------------------------------|---------|----------|
| | Target | Score | Position |
| 1. Labor productivity (based on gross output value) | 19419.00 | 0.03802 | 7 |
| 2. Labor productivity (based on net output value) | 11989.60 | 0.03143 | 5 |
| 3. Rate of net output value in total wages | 284.27 | 0.03313 | 7 |
| 4. Profit and tax rate on funds (fixed assets at original value) | 12.31 | 0.09806 | 6 |
| 5. Profits on fund (same as above) | 5.35 | 0.08809 | 6 |
| 6. Cost rate on sales proceeds | 87.88 | 0.17358 | 6 |
| 7. Comparable energy consumption per ton of steel | 1034.00 | 0.14540 | 5 |
| 8. Material consumption at converters | 1140.00 | 0.04964 | 6 |
| 9. Comprehensive completion rate from ingot to rolled steel | 86.39 | 0.05133 | 2 |
| 10. "Double target" rate for rolled steel | 81.23 | 0.10902 | 3 |
| Total score | | 0.82370 | |
| Position | | | 6 |

| | Baotou Iron and Steel Company | | |
|--|-------------------------------|---------|----------|
| | Target | Score | Position |
| 1. Labor productivity (based on gross output value) | 17402.70 | 0.03407 | 8 |
| 2. Labor productivity (based on net output value) | 10188.00 | 0.03181 | 6 |
| 3. Rate of net output value in total wages | 360.23 | 0.04199 | 5 |
| 4. Profit and tax rate on funds (fixed assets at original value) | 0.13 | 0.08069 | 7 |
| 5. Profits on fund (same as above) | 3.16 | 0.05202 | 7 |
| 6. Cost rate on sales proceeds | 78.20 | 0.19506 | 4 |
| 7. Comparable energy consumption per ton of steel | 1048.00 | 0.14346 | 7 |
| 8. Material consumption at converters | 1154.40 | 0.04902 | 7 |
| 9. Comprehensive completion rate from ingot to rolled steel | 77.34 | 0.04595 | 6 |
| 10. "Double target" rate for rolled steel | 49.11 | 0.06591 | 8 |
| Total score | | 0.7400 | |
| Position | | | 7 |

| | Panzhihua Iron and Steel Company | | |
|--|----------------------------------|----------|----------|
| | Total | Score | Position |
| 1. Labor productivity (based on gross output value) | 20771.00 | 0.040671 | 6 |
| 2. Labor productivity (based on net output value) | 7404.00 | 0.02312 | 8 |
| 3. Rate of net output value in total wages | 240.20 | 0.02800 | 8 |
| 4. Profit and tax rate on funds (fixed assets at original value) | 6.73 | 0.05361 | 8 |
| 5. Profits on fund (same as above) | 0.36 | 0.00593 | 8 |
| 6. Cost rate on sales proceeds | 100.44 | 0.15187 | 3 |
| 7. Comparable energy consumption per ton of steel | 1048.60 | 0.14338 | 8 |
| 8. Material consumption at converters | 1130.00 | 0.05008 | 4 |
| 9. Comprehensive completion rate from ingot to rolled steel | 83.56 | 0.04965 | 5 |
| 10. "Double target" rate for rolled steel | 70.96 | 0.09524 | 6 |
| Total score | | 0.64155 | |
| Position | | | 8 |

Notes:

1. Source of data: Annual statistical and financial reports submitted by various enterprises to the Ministry of Metallurgical Industry (Labor productivity based on gross output value is taken from annual reports on wages for labor).

2. Gross output value is at 1980 constant price; while wages, cost, and net output value are at current price.

3. Indices for cost rate on proceeds of sale, comparable energy consumption per ton of steel and material consumption are based on reciprocals.

4. "Double target" rate for rolled steel equals output of rolled steel up to international or advanced international standard divided by the total output of rolled steel times 100 percent.

Table 5: Comparison between Returns on Investment in Fixed Assets for Eight Key Steel Works During Sixth and Seventh Five-Year Plans

| Returns on Investment in Fixed Assets During Sixth Five-Year Plan Period | Unit: 10,000 yuan | | | |
|---|---------------------------------|-------------------------------|-----------------------|---|
| | Additional profits and taxes | Investment in fixed assets | Returns on investment | |
| Anshan | 107109 | 230093 | 0.4655 | 8 |
| Wuhan | 291112 | 116648 | 2.4596 | 2 |
| Shoudu | 210737 | 79043 | 2.6661 | 1 |
| Benxi | 60116 | 74304 | 0.3091 | 7 |
| Baotou | 70620 | 46386 | 1.5224 | 6 |
| Maanshan | 71244 | 42438 | 1.6788 | 5 |
| Taiyuan | 79767 | 38993 | 2.0457 | 3 |
| Panzhihua | 71262 | 42020 | 1.6959 | 4 |

Returns on Investment in Fixed Assets During Seventh Five-Year Plan Period

| | Additional profits and taxes | Investment in fixed assets | Returns on investment | Position |
|-----------|---------------------------------|----------------------------|-----------------------|----------|
| Anshan | 261930 | 589705 | 0.4442 | 7 |
| Wuhan | 397861 | 256094 | 1.5536 | 2 |
| Shoudu | 563974 | 284809 | 1.9802 | 1 |
| Benxi | 132645 | 249949 | 0.5307 | 6 |
| Baotou | 101817 | 94001 | 1.831 | 4 |
| Maanshan | 91554 | 141328 | 0.6478 | 5 |
| Taiyuan | 123144 | 89772 | 1.3717 | 3 |
| Panzhihua | 77945 | 226584 | 0.3440 | 8 |

Notes:

1. The above data are taken from annual reports of the respective enterprises.
2. Additional profits and taxes for the Sixth Five-Year Plan period refer to the difference between the aggregate profits and taxes of the Sixth Five-Year Plan period and those of the Fifth Five-Year Plan period.
Additional profits and taxes for Seventh Five-Year Plan refer to the difference between the aggregate profits and taxes of the Seventh and Sixth Five-Year Plans. Total investment in fixed assets refers to the sum of investment in capital construction and investment in technical renovation.
3. The Maanshan Iron and Steel Company and the Maanshan Mine carried out separate accounting during 1981-83, and weremerged in 1984. For uniformity, the aggregate value of the two enterprises are taken as the basis in working out the above figures for investment and for profits and taxes.

Table 6: Comparison between Performance and Profit and Tax Indices of Eight Key Steel Works in 1990

| Company | Gross industrial output value | Proceeds of sale | Realized profits & taxes | Realized profits | Profits & taxes turned over | Unit: Yuan [as published] |
|-----------|----------------------------------|------------------|-----------------------------|------------------|--------------------------------|------------------------------|
| | | | | | | Profit retention |
| Shoudu | 31.42 | 69.03 | 26.26 | 21.27 | 14.99 | 13.96 |
| Wuhan | 38.62 | 61.01 | 17.85 | 9.36 | 12.56 | 4.57 |
| Maanshan | 12.50 | 24.52 | 5.29 | 2.05 | 4.54 | 0.61 |
| Anshan | 48.54 | 77.45 | 18.04 | 7.61 | 15.13 | -1.52 |
| Taiyuan | 18.42 | 26.60 | 5.82 | 2.44 | 3.39 | 1.61 |
| Benxi | 14.69 | 26.66 | 5.83 | 2.57 | 4.53 | 0.69 |
| Baotou | 13.03 | 24.49 | 4.41 | 1.39 | 3.22 | 0.35 |
| Panzhihua | 9.60 | 15.83 | 1.80 | 0.1 | 1.83 | -0.62 |

SMALL-SCALE ENTERPRISES

Complex Road to Township Prosperity

92CE0406A Hong Kong KAIFANG [OPEN
MAGAZINE] in Chinese No 3, 18 Mar 92 pp 36-39

[Article by Jiang Hao (3068 3185), a Chinese postgraduate student in the United States: "The Special Product of Ten Years of Economic Reform—Township Enterprises: What Constitutes Their Vitality?"]

[Text] Editor's Note: Township enterprises are the astounding product brought forth under China's policy of opening up. Of small sizes but in great profusion distributed over the entire country and displaying great vitality, they constitute the rational option for a society where a population explosion has resulted in surplus productive forces. The present article is a most brilliant presentation of the existing forms and the orientation of township enterprises, which already produce one-third of the nation's industrial output value. It is an article that must not be overlooked in any study of the reform on the mainland.

Theirs Is One-Third of the Pie

According to official data published on the mainland, there had been over 18 million township enterprises throughout the country in 1990, employing over 93 million persons and having achieved an annual gross output value of 700 billion yuan, which was approximately one-third of the whole national industrial output value. Their exports produced \$1.3 billion in foreign exchange, accounting for one-fourth of the nation's export trade, and they turned over to the state 4.1 billion yuan in taxes. Township enterprises have created a new situation where one can really say, "theirs is one-third of the pie in the national economy."

Ever since legislation by Communist China's State Council in July of 1979 promoted commune production team enterprises, township enterprises developed by leaps and bounds. This was particularly astounding during the first eight years. From 6.06 million in 1984 they steeply increased to 17.44 million in 1987, i.e. they almost tripled in three years. Their gross output value rose from somewhat over 100 billion yuan to over 470 billion yuan. Though their number did not increase very much after 1988, the output value of township enterprises has still increased considerably.

Township Enterprises are China's Grassroots Industry

Township enterprises on the mainland are different from enterprises owned by the whole people, and also different from commune and production brigade enterprises in the cities, in that they cannot partake of "imperial handouts." In financial respects, the state does not invest in them, and for funds they depend on: 1) collective accumulations of peasants, 2) raising funds from individual peasants, and 3) bank loans, where again loan interest rates are higher than for enterprises owned

by the whole people. As to their means of production, township enterprises cannot obtain state plan controlled equipment and raw materials. As to their technology, they cannot get technical personnel whose employment is centrally monopolized and allocated by the state. In all these respects they have to build up their businesses by themselves from scratch. All they really can rely on is the state's policy of opening up. They are therefore in the true sense of the word a "grassroots industry."

"Grassroots industry" has three meanings:

1) It is an industry created and nurtured locally; its enterprises emerge and perish in total independence. During the time of financial stringency in 1988, "lots of them failed and lots of them newly emerged." By the end of 1989, 3 million township enterprises had to close down, suspend business, be merged, or to retool. In Wuxi City of Jiangsu Province, 30 percent of them failed, which is indication of the intense effect that Li Peng's [2621 7720] policy of consolidation has had on the township enterprises. However, township enterprises are of a particularly vigorous vitality. New ones spring up, though some will go down, but it is as in the saying: Not even a prairie fire can destroy all grass, it will grow again when the spring breeze will blow. In the two years of 1989 and 1990, the total number of enterprises throughout the country has again been on the increase.

2) The enterprises of this industry are valued lightly, and their fate is taken as insignificant, just as that of grass in the wilderness. The state imposes a heavy tax on township enterprises, and taxes and profits turned over to the state can, in worst cases, go up to around 60 percent. In the case of enterprises owned by the whole people, the state may still disgorge back to them some part, but no such consideration is ever given to township enterprises, and they are furthermore asked to pay out of their profits some money for the drive to have "industry support agriculture and to have industry support sideline production," and they have to pay another 10 percent, once before and once after tax, as "expenditures for social purposes." There is therefore little profit left. Jiuting Village in Songjiang County was able to make a profit of 14.6 million yuan in 1988, but after all the various deductions it was left with only a profit of 1.83 million. According to statistics for Shanghai Municipality, the after-tax profits in 1988 of all township enterprises throughout the municipality amounted to only 6.7 percent of the total intake, and the average net profit of an enterprise was only 52,300 yuan.

3) It is a risky business to work on the low "grassy" basis. Township enterprises are discriminated against by being kept outside the planned economy. To be able to survive and develop, to be able to obtain working capital, means of production, and technologies, they are compelled to work out a new style and new methods of their own, to cut out for themselves some way to exist.

During Mainland China's last 30-odd years, what has been its commodity economy, and what has been its

market economy? The overwhelming majority of people don't know. The early managers of township enterprises had basically been peasants fresh from the fields. Their ignorance about a free market economy was even worse. All they could do was to "learn fighting while at war" or "learn swimming when already in the water." It was due to their powerful quest for life and due to the traditional factor of a millennium of being small-scale producers, that they took the plunge. The plunge was of a rather low-level "grassy" type, but it was in the end in this manner that "market economy" was initiated on the mainland.

The "Grassy" Way of Getting Started

The initial development of township enterprises was a process of "dealing out cuffs and kicks," very much a show of courage by low-level "grassy" type heroes, and the process took more or less the following forms:

The Art of Using Fish and Meat. The "trend of feasting and drinking," which was rampant on the mainland during the eighties, had as primary "practitioners" the township enterprises. At the very beginning of the reform, the mainland suffered a shortage of commodities, most conspicuously a shortage of foodstuffs, and among the foodstuffs the shortage was worst for fish, shrimp, chicken, and meat. Even with ration tickets for meat or fish in hand, ordinary people could not buy these foods. But the township enterprises, being located in areas of agricultural and sideline production, had no such worries, and they used in the end the resources they had at their disposal, aiming in particular at the enterprises owned by the whole people, inviting first the supply and marketing personnel, then the section chiefs, and then also the plant directors, managers, and party secretaries to come in groups to the villages for a "taste of delicacies." Those that could not be enticed to come, had some sent to their homes. Crabs from the Yangcheng Lake sluice gate, perch from the Songjiang River, carp from the West Lake, prawns from the Liaodong Peninsula... delicacies that had long disappeared from the markets, reappeared one after the other at the banquets or at the homes of plant directors and managers of enterprises owned by the whole people.

Almost everyone in China knows the power of "wine and meat." "Receipt of the favor of one drop of water should be rewarded with a gushing spring." Gentlemen of the past have therefore put forth that "the superior person's friendship be as pure and simple as water," i.e. kept away from wine and meat. In the novel *Shuihu Zhuan* [Water Margin], Wu Song had received the favor of many a feast, but in the end went all out, drunk as he was, to beat up Jiang the Gate Guard. Mao Zedong also called for vigilance against the "sugar-coated bullets of the bourgeoisie." However the "sugar-coated bullets" of the eighties were, first of all, fired by our peasant kinsmen, and furthermore have had instant results, becoming quickly the rage all over the whole country.

A township enterprise of Gaoyou County in Jiangsu Province substituted iron plates for siliconized steel plates and used asphalt-base crude oil as insulating oil. As soon as electricity would be switched on, it would burn. But the Street Light Bureau of Hohhot insisted on the use of these materials, and why? The bureau chief bared the mystery with one remark: "Those people know how to promote sales; whenever they come, they prepare a large banquet of three or five tables [each seating at least ten people], so after dining and wining, how can you refuse to buy from them?"

In 1990, on the eve of the Spring Festival, Shanghai's Mayor Zhu Rongji [2612 6954 1015] issued an order to the effect that every business or industrial unit must buy five jin of fresh fish for each staff and worker. The reason? Because the tens of thousands of township enterprises that have had supply and marketing, technology, or capital loan relationships with Shanghai's various municipal units had formerly presented them with large quantities of fish and meat in the name of better mutual cooperation. Almost every single municipal employee and worker had received a share, which consisted at least of two or three fish and somewhat over 10 jin of pork, but could be as much as seven or eight fish and a whole leg of a pig. As a consequence, there were few customers for the many tons of fish at the public markets, to the utter dismay of the fish stall operators, who angrily complained to the mayor, who in turn reacted by issuing the mentioned order. The Spring Festival of that year was the Spring Festival with the largest consumption of fish by the citizens of Shanghai. Actually, every big city had experienced similar conditions. After having received large quantities of fish and meat as presents, to what extent did the units of the enterprises owned by the whole people reciprocate? One can only speculate.

The Art of Bribery. According to statistics of the mainland Ministry of Justice, most of the economic cases during the last 10 years involved township enterprises. In 1989, these cases accounted for 62.6 percent, and most of them also involved party cadres. When the authorities issued their time-restricted order, over 50,000 persons gave themselves up voluntarily, and the money involved in these crimes amounted to 500 million yuan. A considerable number of these cases had their cause in "unethical economic relations with township enterprises," where the term "economic relations" mostly means bribery.

A certain village belonging to the city of Jiaozuo in Henan Province wanted to start an associated enterprise. Through the intermediary of a friend, they invited the director of the Shanghai No 4 Bleaching and Dyeing Plant, Jin Zhiyun [6855 1807 0061], whom they generously feasted every day, presenting him also on his departure with 300 yuan as a "present on the occasion of first making his acquaintance." As a result, the Jiaozuo Branch of the Shanghai No 4 Bleaching and Dyeing Plant came into being. The branch continuously provided director Jin and other cadres with money in the

form of salaries for concurrent posts, travelling allowances, and year-end bonuses. Finally, the parent plant's technology and some hard-to-get raw materials under state monopoly were channeled to the Jiaozuo branch. In the end, some of the parent plant's markets were also allotted to the Jiaozuo branch. The branch became the source of great prosperity, while the No 4 plant in Shanghai turned from a profitable enterprise, which annually turned over to the state profits of 36 million yuan, into an unprofitable enterprise, whose deficit in the first half of 1990 reached 4 million yuan.

"With money you can even have the devil turn the grindstone." Although this is an ancient aphorism, it is also a common saying which common people understand well. But many mainland township enterprises have very early already acted on the said principle with great skill and gained high proficiency in doing so. In 1988, an analytical report on the finances of Shanghai's township enterprises revealed that 160 million yuan had been overdrawn as plant director fund expenditures, which was 3.3 times the amount that should have rightfully been drawn. The "plant director fund" is generally used as money for bribes. How much money might now be expended every year on bribes by the almost 20,000 township enterprises throughout the whole country?

The Art of Sharing in the Loot. A certain cable manufacturing plant in Qizhong village belonging to Maqiao township in Shanghai Municipality had an annual profit of almost 20 million yuan. If it would use copper bought at market prices as raw material for the production of electric cables, it would have been quite impossible for a small plant employing only one or two hundred men to achieve this kind of a high profit. A considerable portion of the profits of the said plant is derived from buying up at cheap prices industrial copper stolen by "the large army of scrap collectors," which means that one part of the profits is from a sharing of loot. But how much profit is made annually by "sharing loot"? Today that is still a mystery. It is said that the Shanghai Safety Bureau and the Minxing Corporation are in possession of some leads, but they have not made anything public.

Buying industrial raw materials from thieves is a common practice of quite a number of township enterprises and of some individually-run enterprises. The widespread existence of these practices can be verified by data from the judicial departments on the mainland: Cases of theft of means of production have greatly increased in recent years. During the two consecutive years of 1989 and 1990, this type of cases of theft accounted for over 90 percent of all criminal cases in Shanghai. The situation is more or less the same in other cities. In a motorcar manufacturing plant in Jiangsu Province, 58 automobile chassis were stolen in 1989, valued at 2 million yuan. At a bearing manufacturing plant in Luoyang, the head of the security office acted in collusion with his younger brother and stole almost ten tons of bearings in the one year of 1987 alone, valued at more than 100,000 yuan. In China's largest special economic zone, Hainan Province, since 1989, 324 cases

of theft and destruction of long distance telephone lines have occurred, and 672 km of long distance communications trunk lines have been stolen, resulting in a direct economic loss of 1.12 million yuan.

On the mainland, most raw materials, parts and components belong to the category of materials that are under centralized control of the state. As stolen property, these materials cannot possibly reenter into the state-run circulation channels, so that in the end it is only the township enterprises that become the main fences for this type of stolen property. The township enterprises that might feel bitter about not being able to partake of "imperial handouts," will then on the other hand not turn away from reckless acts of this kind, namely from buying stolen property. Compared with the Robin Hood types of old, who were dividing the booty among the local people, it is today merely a matter of "saving some money and buying more of all loot."

The Art of Counterfeiting. In the 1980's a township enterprise in Fujian Province left its mark by the astounding Fujian fake medicine case. Peasants who want to get rich quick, but have neither capital, nor technology, nor equipment to start an enterprise, might be inspired by some old historical stories, for instance, the story in the novel *Shuihu Zhuan* [Water Margin], where second sister Sun sells dumplings filled with human flesh.

What dimension has the counterfeiting trend on the mainland reached by now? Here are some reports:

1) Serious cases of manufacturing and selling of counterfeit and falsified goods of inferior quality during the period from 1985 to 1987 amounted to 94,000 cases, and resulting fines and confiscations had a value of 170 million yuan.

2) In the famous Wenzhou district, counting only those that could be checked, there were 77 enterprises manufacturing false-leather shoes. In Hebei Province, there are 15 townships, 131 villages, over 1,000 persons assembling and profitably selling bicycles under counterfeit trademarks.

3) Up to August of 1987, it was found that there are 510,000 bicycles with counterfeit trademarks throughout the country, over 230,000 watches with counterfeit trademarks, and also over 3.6 million counterfeit cigarettes, over 19 million counterfeit bottles of name-brand wine, falsified chemical fertilizer, falsified seed... all to large quantities.

In view of this situation, the authorities have published a "Handbook for the Identification of Counterfeit Goods."

Evil, a Lever for Social Progress

All these various machinations of the township enterprises are undoubtedly a kind of "evil," which has in fact repeatedly been internally condemned by Communist

China itself. However, some of the "evil" deeds by our peasant kinsmen have resulted in certain "nonevil" consequences:

1) They started up the market economy. In the early stages of the reform, Communist China still firmly kept a hold on the means of production and sources of energy, imprisoned in the cage of its planned economy, and it was the township enterprises that inexorably forced these items into the market.

2) They exploded the myth about the party. Such myths about the party as that it was "constituted of special material" and that it acted "perfectly just and without selfishness," were shot to bits by the "meat bullets, wine bullets," money bullets" fired by the peasants. The party's decadence was rapid. All economic law cases presently handled on the mainland, are characterized by the three "many's," namely involvement of many party members, many cadres, and many model workers. One after the other, group after group, they have revealed their true nature.

Appraisals in a praising vein regarding township enterprises have appeared in the last one or two years. Du Daozheng [2629 1418 2973], the former director of the Press and Publication Administration, who was brought down in the course of an internal squabble among the higher Communist Chinese echelon, had written an article November last year after his inspection tour of Guangdong Province, entitled "Random Notes on a Visit to the Zhujiang Delta." In this article he repeated a remark by the deputy secretary of Xinhui County: "Without the township enterprises, Chinese-style socialism would not exist." That was perhaps by that time the highest evaluation of the township enterprises coming from within the party. Chinese communist philosophy maintains that "the economic base determines the superstructure." The township enterprises have produced an annual output value of over 700 billion yuan, and that is why almost nobody objected to that kind of an evaluation. We may say that the township enterprises have now been elevated in rank from their former low "grassy" existence to admission into the palace of socialism.

Zhu Rongji's Tolerant Attitude Toward the Township Enterprises

Most interesting is a story that developed in Shanghai. In the case of the Maqiao Cable Manufacturing Plant, which we have mentioned before, their long-term buying up of industrial copper materials stolen by "scrap collectors" had been repeatedly investigated by the Shanghai Safety Bureau and the safety bureau of the Minxing Industrial Development District, but these investigations have met with obstruction from the Maqiao township government and its superior authority, the Shanghai County government. When the safety bureau reported the matter to mayor Zhu Rongji, his was an astounding attitude: "Don't bother, the stolen copper is after all not slipping away to somewhere outside; it does remain in

Shanghai. As I see it, that secretary of the Qizhong Village party branch has quite some brain, his planning of the village development is not bad at all. Only, we must give it less publicity in future."

The Maqiao Cable Manufacturing Plant made big money, and the party branch secretary Gao Fengchi [7559 7685 3069] used that money to build a Western-style housing complex for 120 peasant households in Qizhong Village, one house for each household. In front of the housing complex, a road of white concrete was laid out, and on the other side of the road they built the Qizhong Village primary school, while they also built nearby a tennis court to international standards. Every visitor will be pleased with what is to be seen. Not only is this what Zhu Rongji considered "planning that is not bad at all," even state chairman Yang Shangkun has repeatedly expressed praise. However, the highest praise was that of Wang Renzhi [3769 1804 0037], director of the CPC's Propaganda Department. It is said that when he inspected the place, he was simply exhilarated, and pointing to the red tiles and white walls, he told his entourage: "This is the new village of socialism!" He seems indeed to have discovered new material for "firmly upholding socialism," while Zhu Rongji at his side, knowing well the details of the case, did not dare to say anything.

Township Enterprises Move Into Politics and Toward Political Power

The township enterprises with their enhanced strength will no more be satisfied with merely wearing the laurels of "socialism." They are now on the way into politics and toward political power. According to a recent report, 70,000 villages of Zhejiang Province have held general elections, and plant directors and managers of township enterprises have all personally competed in the election campaign. As a result of the election, directors and managers of township enterprises accounted for 40 percent of the village-level cadres in these 70,000 villages. A large figure and a huge contingent.

According to a report in issue No 82 of the internal organ of the Central Committee's Organization Department, the ZUGONG TONGXUN [ORGANIZATIONAL WORK NEWS], it happened at the township and village elections for periodically due replacements that some persons "relying on their economic power, using money as their armament, and displaying great activity all over the place, either bribed delegates or bought up votes at high prices." "In a certain village where 608 votes were available, one person, who had recently become very rich, bought somewhat over 300 votes at the price of 5 yuan a vote, thereby almost acquiring a monopoly in the election." "In one village an individual entrepreneur in the clothing trade (also a township enterprise) ran for deputy township head and publicly announced: Any peasant delegate who will vote for me will be paid 20 yuan; any township cadre who will vote for me will be paid 100 yuan." The article says: "Under the disruptive influences of these persons, some people of discreditable

character, even people with a tainted past and now again showing bad conduct, will be elected to township and village cadre positions. This situation must have the serious attention of all of us at every level of the organization." The intention of plant directors of township enterprises and of individual entrepreneur-managers to get involved in politics has obviously aroused grave anxiety in the higher Chinese communist echelon.

A plant director of a certain township enterprise in Jiangsu Province has stated publicly: "The township enterprises have won their battle only after innumerable hardships, while all cadres now in charge of economic affairs have no practical experience. If township entrepreneurs were allowed to act as prime ministers of the State Council and ministers of state, China would definitely be run effectively."

We should use here again the phrase of a Marxist: "Politics is the concentrated expression of economics." Now that peasants have become prosperous and township enterprises have acquired great wealth and show uncompromising spirit, it seems it is only a natural trend that they should go into politics to manifest their own aspirations and interests. As far as we are concerned, there is one question we are pondering: Forty years ago, the Chinese Communists seized power, representing 400 million peasants. In the not too distant future, will history perform a circle—will it allow the advent of a political regime that will represent a new generation of peasants? Let us only hope that these thoughts are uncalled-for.

CONSTRUCTION

Investigation Report on Shenzhen's Housing Reform

92CE0446A Beijing ZHONGGUO WUJIA [PRICES IN CHINA] in Chinese No 3, 17 Mar 92 pp 43-46

[Article by Chen Yuanchun (7115 0337 2504): "Investigative Report on Reform of Shenzhen's Housing System"]

[Text] Progress

From the time that the Shenzhen Special Economic Zone housing system reform program went into effect on 10 June 1988 and began to be implemented on 1 October of the same year until now the expected goals have essentially been rather smoothly accomplished.

Shenzhen's housing reform applies to party and government organizations, institutions, and state enterprises in the special zone, including not only units subordinate to the city, but also units from the central government and all provinces and cities stationed in Shenzhen. The present situation seems to be that units subordinate to the city are making much quicker progress, with virtually all of them having signed rental or sales agreements.

Most of those that have not kept pace are central government units stationed in Shenzhen.

In the first stage, Shenzhen's housing reform was mainly directed toward old houses. The line of demarcation between old and new houses was the date the program went into effect, i.e. residences that were completed and occupied before 10 June 1988 were old houses. Those completed and occupied after that date were new houses. By the end of December 1990, housing reform had been carried out with 31,383 old houses, 73 percent of the total number of old houses that should have participated in reform, recovering a total of 410 million yuan in housing funds. Beginning 1 April 1991, Shenzhen's new houses entered the sale and rental stage and new houses became the focus of present and future special zone housing reform. By October of that year, sale and rental agreements had been signed for 1,517 units.

Basic Procedure

The basic procedure for Shenzhen's housing reform is: The four step commercialization of subsidized rent increases, encouragement of the sale of houses, establishment of a fund, and a new policy for new houses.

1. Attaining standard costs in one step based on subsidies.

Considering housing reform as changing distribution of goods to distribution of currency, Shenzhen listed housing subsidies as wages and at the same time raised house prices and house rentals to the standard cost in one step, i.e. the cost of constructing the thing itself caused house prices and house rentals to operate on an incremental base with subsidies so that housing could be easily reproduced.

Housing subsidies are classified in a way linked to wages. One category is for workers who are 23 years of age or older and are permanent residents of the special zones as well as temporary residents employed with the approval of the Shenzhen Municipal Organization and Personnel Department. The formula for the monthly housing subsidy is [occupational pay - 75 yuan (former living expenses) + longevity pay] x 48 percent. Another category is for permanent residents of the special zone who are not yet 23 years old as well as workers with temporary residence. They all are subsidized as single persons, 12 yuan per person per month.

The standard costs for housing prices are determined for old houses based on 1987 replacement building costs. For new houses they are determined based on actual calculated building costs for the thing itself. In principal it is the combination of the construction cost of the thing itself, project administrative fees, and periodic construction interest. Old houses in Shenzhen are figured at a standard cost price of 264.15 yuan per square meter (indicating building area here and below). New houses completed from the second half of 1988 to the end of 1990 are 397 yuan per square meter and those completed at the beginning of 1991 are 480 yuan per square meter.

Standard cost house rents are calculated based on standard cost house prices coupled with the five factors of the depreciation cost, depreciation of periodic interest (investment interest), maintenance costs, administrative costs, and taxes.

2. Using preferential methods as a means of encouraging workers to buy houses.

Shenzhen's housing reform plan in policy encourages workers to buy houses, but certainly does not force them it is voluntary whether to buy or rent. To encourage working families to buy houses, the following preferential methods have been specially implemented:

(1) Giving those who pay off their housing account all at once a 15 percent advantage. This is to offset the attractiveness of the bank's interest rate. Because housing purchase accounts deposited in a bank can earn interest, workers with money do not want to pay it off all at once. An itemized accounting would only require 13 percent to subsidize the house purchaser's loss of interest, but to encourage home purchases, they have implemented a 15 percent advantage. This helps to speed up raising of the housing fund and reduces the amount of housing accounts paid monthly.

(2) Giving those who pay on time a 6 percent monthly interest, i.e. the advantage of an interest rate lower than common loans. The 6 percent is calculated based on the average monthly rate of increase in the eight years 1979-1987 when the cost of the construction itself rose from 150 yuan per square meter to 264.15 yuan per square meter. Under normal circumstances, as long as it is not below this interest rate, they can be assured that the periodic payment will not depreciate.

(3) Giving house buyers property rights. It appears that this is an advantage presently unique to Shenzhen. The principal is total cost price total property rights, i.e. once workers have paid off the standard cost price and in addition paid off the land development fee (indicating the residential district five connections and one level fee), they obtain residential ownership and can directly enter the market to trade, but each household can only make use of this once. Before 1 April 1991, the total cost house price to purchase an old house was $264.15 + 110 = 374.15$ (yuan per square meter). After 1 April 1991, the purchase price for houses was raised 25 percent and total cost of house prices were $330.5 + 137.5 = 468.0$ (yuan per square meter). Before the end of 1991, the total cost price for a new house was $397 + 137.5 = 534.5$ (yuan per square meter).

3. Establishing a housing fund centered on the sale of old houses.

Through the sale of old houses, starting with funds invested by the state in the past, they could make dead money live money. These funds are ready-made. There is no need for the Ministry of Finance and enterprises and other businesses to allocate them. Establishing a housing fund centered on this earmarked for a specific purpose

and under unified administration a cycle of selling houses—constructing houses—selling houses can be accomplished. The Shenzhen Municipal Housing Administration used the 135 million yuan housing fund raised from the sale of old houses in the last two plus years of housing reform not only to improve the two residential districts of Ludan village and Hong Li village, but also the new residential district of Lian Hua Erh village with 1,631 residences and a construction area of 126,000 square meters. On 6 May 1991, the housing fund again entered its second cycle symbolized by the start of Gang Xia residential district. With essentially one cycle every two years, they construct a batch of new houses with each cycle.

4. Implementing a new policy for new houses based on calculating actual costs.

Old houses were the product of the traditional distribution system and investment system. Its housing reform policy is transitional and tends toward compromise. But new houses are at the turning point in the transition from the old system to the new system and the new housing policy must be linking and long-lasting. The core of Shenzhen's new policy for new houses is determination of the price of new houses from calculation of actual costs, but no matter what year old houses were completed and occupied, the price is always determined from calculation of 1987 reconstruction costs. The distinction is that old houses have numerous depreciations and are somewhat cheaper. Before the end of 1990, the average actual calculated cost of a new house was 397 yuan per square meter, 43 percent higher than the standard 1987 calculated reconstruction cost. Shenzhen used other ways to take care of the contradiction of the excessively large price differential between new and old houses produced by this and persisted in not changing the principle of "determining the price of new houses based on the calculation of actual costs."

Based on the principle of persisting in the new house price determination policy, they also have implemented the following regarding new houses: (1) Miniaturization policy. They reduced the construction area of each residence so that with the same total area of housing completions they could solve a bit more of the housing shortage and at the same time make it easier for workers to stand the purchase of a new house. (2) The area price differential system. No matter how high the position, all new house purchases use the 70 square meter standard. Every square meter in excess adds 1 percent to the total house price, with a maximum price increase of 30 percent. Conversely it is reduced. This then changes the past situation of different house price increases for excessive area for different people. (3) The mortgage loan method. Workers who cannot pay off the housing account all at once can negotiate a mortgage loan with the bank. The bank pays it off all at once for the worker and the worker pays the bank on time. Thus, the funds can be rapidly put into housing construction. With

Shenzhen adopting this method, the circulation time for housing funds has been reduced from an estimated fifteen years to two years.

5. With resolving the housing problem as the goal, a dual track four price housing supply and demand system has been formed.

Shenzhen's housing reform goal is to divide party and government institutions and the entire special zone into 1993, 2000, or many year periods in resolving the housing problem. The standard is for each household (permanent resident household) to be able to live in a housing unit, i.e. with a living room, bedroom, kitchen, bathroom, and balcony, and an average of 70 square meters per household.

To attain this goal they must not only depend on the government to build houses, but they also must depend on various specialized real estate companies to build houses. This forms the dual track. The first track is government housing construction implementing two types of prices, one for workers in party and government institutions—the welfare price; and the second for enterprises that need support—the plan price, then provided to the worker by the enterprise based on the welfare price. The second track is real estate company investment in housing construction implementing two types of market prices, one is the price for the domestic market accepting renminbi. The second is the price for the foreign market, for foreigners and countrymen from Hong Kong, Macao, and overseas, accepting foreign exchange.

Actual Results

A survey of the situation shows that although Shenzhen's housing reform still requires further improvement regarding administrative procedure and a healthy new housing system, the first phase has been essentially completed and obtained obvious economic and social results.

1. Reduced the state burden and increased individual expenditure.

Before housing reform, 100 percent of one time investment and almost 100 percent of perennial housing upkeep costs fell to the state. After reform, based on Shenzhen's first batch of new house calculations after housing reform (before the end of 1990), the state to satisfy the housing expenditure for a worker required an average of 43,000 yuan in one time investment and 22,000 yuan in housing subsidies (calculated by the discount method). The total expenditure calculating the two together was 65,000 yuan, and the average worker's house purchasing expenditure, based on standard cost price calculation, was 35,000 yuan. It is obvious that 53 percent of what the state expends in housing construction costs and housing subsidies can be recovered by selling the housing, i.e., the worker assumes approximately one half of the state's total expenditure. Further analysis reveals that in the worker's expenditure the net

expenditure after deducting the housing subsidy makes up about 30 percent of housing construction costs, i.e. after reform the worker takes on 30 percent of housing consumption expenditures. With further intensification of reform, the proportion of individual expenditure could constantly increase.

Regarding housing upkeep costs, after widespread housing sales, the property rights of the vast majority of residences changed and some of the housing upkeep costs for the residence itself were assumed by the individual. This is hard to compare with the situation before reform when the state not only could not recover its housing investment, but it also had to add housing upkeep costs. It greatly reduces the state burden.

2. Encourage structural adjustment and improve the consumption concept.

The establishment of the housing fund and the guarantee of a good cycle for the housing investment fund accelerated the pace of housing construction and greatly changed the shrinking situation for the construction industry and helped to develop the mainstay construction industry and promoted a rational adjustment in the economic structure. At the same time it also adjusted the consumption structure, improving the consumption concept. After housing reform, the percentage of Shenzhen's housing consumption expenditures rose from the original 1 percent of total family income to about 20 percent and housing consumption has become a major item in residents' consumption expenses. People's housing demands have changed from wanting a large house and a good house to an economical, reasonable, and practical residence that they can support economically. The concept of housing as a commodity is deeply imbedded in people's minds. Relying on economic strength to improve their own living conditions has become the common choice of the people of the special zone and replacing administrative methods of distributing housing with economic methods has reduced unfairness in housing distribution and effectively repressed the unhealthy tendency of using power to seek housing.

3. Enlivening the real estate market and spurring related production.

In the Shenzhen program, after the total cost of the house price is paid off, the house purchaser obtains full property rights and can exercise the rights to occupy, to use, to manage, and to receive income from the housing, and certainly can also enter the market. So, it would necessarily form an enlivened real estate trading market of selling the old and buying the new, selling the small and buying the large, and selling east and buying west, not only helping to establish a complete special zone market system, but also helping to increase financial receipts. At the same time, workers after buying a house cherish it more and meticulously maintain it and greatly increase repairs. According to a survey of 100 Shenzhen households, individual expenditures for home improvement materials in May 1991 reached an average of 33.99 yuan.

There is no way to compare this with before reform, but it is a 1,360 percent increase over the same period in 1990. Improving the level of home improvements not only improves the quality of residents' housing and beautifies the living environment, but also directly spurs the development of industries such as the construction materials and decorating industries.

Existing Problems

Shenzhen's housing reform has progressed smoothly and received the understanding and support of the special zone's numerous enterprises and residents. At the same time, it also has encountered quite a few difficulties and several problems remain. The main ones are:

1. Some economically deficient enterprises cannot issue housing subsidies.

According to estimates, total wages on average make up only 8 percent of industrial enterprises' gross value of industrial output and housing subsidies also make up only 11 percent of total wages, i.e., housing subsidies make up only 0.88 percent of total industrial output. That is to say, extending housing subsidies does not constitute a very great effect on enterprises' normal operations. Based on this analysis, in formulating the Shenzhen housing reform program, the effect of this aspect was not considered. We believe that enterprises that cannot issue subsidies are not able to give care and protection.

2. Lagging social insurance.

Shenzhen enterprise workers housing subsidies are linked to the enterprises' social insurance system. Housing reform has now been in effect for three years, but the social insurance system program still has not been implemented.

3. The contradiction of personnel mobility and mutually occupied housing.

Reasonable mobility of personnel is an important force propelling economic development, so housing reform must aid personnel mobility. In Shenzhen housing problems are the greatest obstacle to staff transfers. For this reason, the program stipulates that houses are to be purchased or rented by the occupant no matter who has property rights and old residents have preferential purchasing rights. So, enterprises with a rather large number of residences occupied by outside units could feel that they are sustaining a loss. Despite the formulation of measures to make up the difference between the workers' unit and the unit of the residential property owner, still some workers transferred from their original units cannot sign a housing agreement for a long time.

4. All property owners' preferential house sales have not fully considered the increased value of real estate.

Increased real estate values is an inevitable general trend and they presently still lack effect measures to adjust the increased income produced by this. Assuredly, with the

passing of time, the increased value of real estate will necessarily be reflected in increased housing prices. So, houses bought at present discounted preferential prices could become a new form of unfair distribution. So, further improvement and strengthening of the preferential sale of houses aspect is needed to reduce the social contradictions and problems caused by this as much as possible.

FOREIGN TRADE, INVESTMENT

Jilin Official on South Korean Trade Relations

HK2905065592 Hong Kong TA KUNG PAO in Chinese 28 May 92 p 5

["Special interview" by He Sui-i (0149 4482 1837): "Jilin and South Korea Strengthen Economic and Foreign Trade Contacts—Interview with Cong Zezi, Deputy Director of Jilin Provincial Foreign Economic Relations and Trade Commission"—place and date not given]

[Text] With its keen economic antenna, Jilin foresees major economic and trade developments with South Korea in the near future, and preliminary preparations are quietly underway.

Six Countries Jointly Develop the Tumen Jiang Delta

The waters of the Tumen Jiang flow into the sea in East Jilin Province. As it is bounded by the Korean peninsula and linked to the Eurasian continental bridge, it is a virgin soil for investment which is extremely interesting. As revealed by Cong Zezi, Russia, Japan, South Korea, North Korea, Mongolia, and China are working out a plan for its joint development, and the United Nations Development Program also plans to invest \$30 billion here toward building an "Asian Rotterdam" in 20 years.

These plans are relatively distant. As an immediate move, China has finally decided to select four cities in its northern territory as economic development zones, comprising Suifenhe, Heihe, Manzhouli, and Hunchun. Cong Zezi said: Jilin has delegated to Hunchun the power of examining and approving foreign capital utilization at the provincial level. At present, a group of Hong Kong and Japanese businessmen are engaged in real estate and processing projects. It is believed that, as time goes by, this region will become a hot spot for economic and trade cooperation between China and South Korea.

An Economic Representation Office Will Be Set Up in Seoul

South Korea, one of the four little dragons of Asia, has adequate foreign exchange reserves. In the past, it generally participated in complementary trade with Jilin through Hong Kong and Japan. Cong Zezi added: According to statistics, Jilin's export trade volume to South Korea in 1990 was over \$23 million, and the figure last year was more than double that of 1990,

exceeding \$49 million. It is thus obvious that the channels of trade between the two sides have become increasingly smooth, and the range of trade is more and more extensive.

Cong said: If direct trade can be conducted, however, the effect will be even better. For example, people had to use Bolivia as an intermediary to set up companies in South Korea last year, however, this year, the state has given approval for two provinces to have direct economic and technological cooperation with and export labor services to South Korea. Jilin is one of them. As a result, it immediately seized the opportunity to set up a representative office for economic and technological cooperation in Seoul, which has attracted great attention in South Korean trade circles. Jilin has decided to hold small-scale special trade talks in South Korea in June in order to promote exports and economic and technological cooperation between the two sides.

Speaking about Jilin's advantages in terms of economic and trade activities with South Korea, Cong feels that, because the province shares a 1,200-km border with Korea, and more than one million residents have similar characteristics, language, and customs as those in South Korea and have many relatives distributed in both North and South Korea, people of the two sides can understand and accept one another easily. As far as this factor is concerned, other provinces are simply beyond comparison, just like the relationship between Guangdong, Hong Kong, and Macao.

There Are Broad Prospects for Cooperation Between the Two Sides

Although trade with South Korea is now mostly conducted through third parties, judging from available information, Jilin exports more than 1,000 kg of pilose antlers to South Korea each year, and its mineral products, such as ferrosilicon, ferrotungsten, and silicomangan, are welcomed widely. Cong pointed out: In fact, there are far more things in Jilin which South Korea is interested in, however, for various reasons, trade between the two sides is still restricted and has not been given a free hand to make further progress.

He said that quite a few South Korean businessmen have repeatedly proposed to open high-grade hotels in Jilin as intermediate organizations to provide service for Japanese and South Korean businessmen who are developing East European business by way of the Eurasian continental bridge. These proposals have been sidelined because relations have not been normalized. Looking ahead, Cong predicted: In light of the present foundation and reality in Jilin, while South Korea is perfectly justified in coming to do business here, Jilin is in urgent need of its funds, equipment, and technology to develop intensive processing of agricultural products, timber processing, as well as chemical and electronic industrial products. Besides, Jilin also wishes to draw support from South Korea's rising automotive manufacturing techniques and combine it with Jilin's existing backward

auto industry (Changchun No.1 Automotive Manufacturing Plant) with a view to developing light vehicles.

Cong concluded: Of course, before this becomes fact, Jilin must attach great importance to border trade between Hunchun and other cities on one side, and the CIS and South Korea on the other in an earnest and down-to-earth manner.

Silk Road Revival Boosts Central Asian Trade

*HK0506041192 Beijing RENMIN RIBAO in Chinese
26 May 92 p 1*

[By Zeng Kun (2582 0981): "Momentum in Economic, Trade Cooperation Between China and Central Asian Countries Is Good"]

[Text] Urumqi, 25 May (RENMIN RIBAO)—The ancient Silk Road, which flourished in the past, has revived after being silent for several hundred years. As a passageway to the West, it closely links China and Central Asia with Europe once again. This reporter recently went abroad, travelling west from Xinjiang and visiting Kazakhstan and four Central Asian countries. Wherever he went, he could see China's economic and trade envoys and delegations and met tourist and purchasing groups from Central Asian countries returning from China or guests from the Commonwealth of Independent States who were about to visit China.

Leaders from Kazakhstan and four Central Asian countries told this reporter that they hope to step up economic and trade cooperation with China to make the ancient Silk Road shine with dazzling splendor once again. The concerned departments in Tajikistan requested that this reporter transmit the message that they hope road transportation between their country and Taxkorgan Tajik Autonomous County will be put into operation as soon as possible.

It is known that 11 road transportation ports in Xinjiang are open to Central Asia and its neighboring countries and that one railroad port is open to Kazakhstan, but they still do not meet their transportation needs. Many provinces and regions in our country, including Liaoning, Heilongjiang, Shaanxi, Gansu, Tianjin, and Xinjiang, have vigorously carried on economic and trade cooperation with four Central Asian countries and Kazakhstan through the Silk Road. A few days ago, a delegation from Lanzhou City and the Republic of Turkmenistan signed six economic and trade agreements in Ashkhabad City.

Government Imposes Export Licenses on Toys

*OW2206092892 Beijing XINHUA in English
0856 GMT 22 Jun 92*

[Text] Beijing, June 22 (XINHUA)—China will impose export licenses on toys made by more than 3,000 factories in the country from September 1 this year to ensure product quality, according to a circular published here today.

The export toy license regulations, consisting of 26 articles in five chapters, were jointly made public by the State Administration for the Inspection of Import and Export Commodities and the Ministries of Foreign Economic Relations and Trade, Light Industry and Agriculture.

Toys are one of the important sources of China's hard currency earnings. They amounted to 810 million U.S. dollars last year with large trade partners such as Hong Kong, the United States, the European Community, Canada and Australia.

The country exports over 10,000 kinds of cloth, metal, wood, plastic, leather, electrical and electronic toys.

An administration official said that China has made big progress in the toy making industry and production management, but there exist some quality problems and about two percent of the products are not up to standard.

He said that China adopts export licenses with an aim to tighten control over product quality and safeguard customers' interest.

According to the regulations, the administration will be responsible for quality control and inspection and issuance or withdrawal of licenses.

Opening Up Interior to Compensation Trade

92CE0497A Beijing GUOJI SHANGBAO in Chinese
23 May 92 p 3

[Article by Wang Guisheng (3769 2710 3932) and Chen Min (7115 2404): "On Vigorously Opening Up the Interior to Compensation Trade"]

[Text] Since the State Council issued on 3 September 1979 its "Regulations on Developing Foreign Manufacturing, Assembly, and Small- and Medium-Sized Compensation Trade" (abbreviated hereafter as "Regulations"), China has been engaging in foreign compensation trade for more than a decade. The relevant statistics show that in the one year of 1990 alone, our coastal zone export volume from various forms of manufacturing trade, such as compensation trade, reached \$24.18 billion, or 30.3 percent more than in 1989, while its proportion of our national manufacturing trade increased from 92 percent to 94 percent. As to the vigorously expanding compensation trade in our open coastal zone, Guangdong is leading the way, with a manufacturing trade turnover in 1990 of \$16.16 billion, or 66.8 percent of our open coastal zone manufacturing trade turnover, being followed by provinces and cities, such as Fujian, Shanghai, Jiangsu, Zhejiang, Shandong, and Liaoning, where compensation trade is also expanding very briskly. In summing up our more than a decade of compensation trade history, it should be said that its development has been successful in China's open coastal zone. While it has not only resolved the employment problem for over a million people in Guangdong, but also created export earnings for China of hundreds of

millions of U.S. dollars a year, such trade activity, which is obviously so vigorous in our open coastal zone, has certainly been far less than ideal as far as China's vast landlocked hinterland is concerned. For instance, Hubei's 1991 manufacturing trade turnover from forms, such as compensation trade, was only a little more than \$10 million, with export earnings of only a little over \$6 million, while other provinces and cities have not engaged in even a single compensation trade transaction a year. What is the reason for this? I think that while this uneven development has had many causes, the major ones that have delayed the vigorous opening up of the interior to compensation trade in the last decade or so are 1) a lack of understanding, 2) inadequate policy and legal leadership, and 3) a poor investment climate.

These are precisely the three factors that have kept the growth of compensation trade, which began at the same time as that of the three kinds of foreign trade (foreign-invested) enterprises, far behind that of foreign-invested enterprises (FIE's) throughout China, and the growth of compensation trade in our vast landlocked hinterland far behind that in our open coastal zone. But we now also have the following extremely favorable conditions that will help to expedite a large-scale expansion of our compensation trade:

1. Many developed countries or regions are now engaged in their third postwar industry structural adjustment. The analysis by concerned Japanese is that Japan is very likely to transfer certain obsolete equipment for continued use to countries or regions with abundant and cheap labor, such as China. Moreover, as the "four little dragons of Asia" (Taiwan, South Korea, Hong Kong, and Singapore) have been adapting in recent years to the demands of sharply increasing international market competition, by competing to adjust their industrial structures, eliminating on a large scale their labor-intensive industries that have already lost their competitive advantage, and focusing their efforts on developing high-tech, precision, and sophisticated high-added-value industries, certain of their enterprises are shifting low-added-value labor-intensive industries to neighboring Asian countries, such as the ASEAN countries (including China). For instance, in 1990 alone, Hong Kong invested in 4,751 Mainland Chinese projects, or 65.3 percent of all of China's foreign-invested projects that year.

2. There is a search for ideal investment sites worth hundreds of billions of U.S. dollars in idle international capital. Since the beginning of the 1990's, the sustained recession in the U.S. economy, and the gradual slowing of the Japanese economy after three consecutive years of steady growth, have been continuously increasing the huge amount of idle capital leaving these countries in the process of material production and circulation. As the circulation of this huge amount of international capital far exceeds actual world trade needs, so that much idle capital is being forced to search for ideal investment sites, we are fully capable of attracting this capital with our advantages of a stable political situation and a steadily improving investment climate.

3. Our improving relations with Taiwan are opening up new fields for expanded compensation trade. As the Taiwan currency has been steadily rising in value in recent years under the pressure of the devaluation of the U.S. dollar, this large-scale appreciation of the Taiwan currency has undoubtedly been a severe blow to many Taiwanese export enterprises, particularly small and mid-size ones. In order to overcome the resulting difficulties of the Taiwan currency appreciation to product exports in industries, such as textiles, leather, toys, electronics, hardware, and clothing, Taiwan has expanded its mainland investments. Statistics show that our Taiwanese compatriots invested in 1,103 mainland projects in 1990 alone, for an agreed investment of \$890 million, which figures were higher than in 1989 by 104.3 percent and 61.3 percent, respectively, with investments being in labor-intensive industries, such as textiles, electronics, machinery, industrial chemicals, and ready-made clothing, where production in Taiwan was not favorable to exporting;

4. The breakup of the Soviet Union has expanded our prospective compensation trade partners from one to many. As China's trade with the former Soviet Union and the East European countries accounted for only about 10 percent of our foreign trade turnover, all of which was accounts and barter trade with no cash payments, there is not only the possibility, but also a great potential, for a vigorous expansion of our compensation trade with the East European countries and the various countries of the "Commonwealth of Independent States" (CIS) that was formed out of the disintegrated Soviet Union. Therefore, the analysis of those concerned is that compensation trade between China and the countries of the CIS will not decrease, but can only increase.

Therefore, we are recommending that the concerned sectors proceed quickly in the following areas:

I. We Should Quickly Revise Our Policies and Improve Our Legislation on Compensation Trade

Revising policies and granting preferences is mainly to arouse the initiative of sponsoring enterprises. Our history of compensation trade development in the coastal zone shows that granting more preferences to sponsoring enterprises (in areas, such as raw materials supplies, taxation, and foreign exchange retention) is the key to stimulating enterprises to engage in compensation trade. As to our existing policy, the key need is to change the foreign exchange retention proportions for the state, localities, and enterprises, as stipulated in Article 9, Section 2 of the "Regulations," which grant only 15 percent foreign change retention to interior sponsoring units and local governments, to be divided equally between them. As most sponsoring enterprises are subject to local control and leadership, only a tiny amount of foreign exchange actually ends up under enterprise jurisdiction, so that some enterprises are even forced to raise foreign exchange by other means, in order to purchase

necessary production raw materials or upgrade equipment. In particular, as the rising conversion rate on foreign exchange markets forces enterprises to spend a lot of money for foreign exchange to deal with pressing needs and ensure fulfillment of contracts on schedule, how could this arouse their initiative to engage in compensation trade? Thus, we should lose no time in increasing the foreign exchange retention proportion of sponsoring enterprises. As to how much it should be increased, we think that it should not merely be raised to the level of that in the coastal zone, but that it should even be made slightly higher, so that it will be attractive to interior sponsoring enterprises, and the interior will be willing to engage in such trade with the coastal zone or abroad.

As to making our legislation better and sounder, our most important task is to either revise the relevant provisions in our "Regulations" as quickly as possible, or to reformulate them and issue a new "Compensation Trade Law." Regardless of which method is used, the key will be to set forth in laws and regulations the abovementioned crucial policy revisions in areas, such as the allotted foreign exchange retention percentages. Unless policies are standardized and legalized, so that they can be conscientiously and effectively enforced, it will be hard to bring their impact into proper play no matter how much they are improved. Our experience in coastal zones, such as Guangdong, has proved this point very well. The laws, rules, and regulations that have been issued there in the last decade, such as the "Temporary Provisions on Foreign Manufacturing, Assembly, and Compensation Trade Contracts in Guangdong Province" (1984), the "Circular on Enhancing the Management of Foreign Manufacturing, Assembly, and Compensation Trade Contracts" (1985), and the "Provisions of the Fujian Foreign Economic Relations and Trade Commission on Stimulating the Growth of Compensation Trade" (1987), have clarified and solidified the preferential policies granted by the state, and played a fine promotional role in the local development of compensation trade.

Of course, in addition to clearly expressing the nation's revised policies, the new national laws and regulations on compensation trade must also discard many provisions in the existing laws and regulations that are out of line with current conditions. For instance, the provisions in the "Regulations" on matters, such as operating limits, size, foreign exchange rates, and examination and approval procedures, are all in urgent need of being discarded or revised. This should apply whether the state revises the current provisions or draws up new legislation.

II. We Should Improve Our Investment Climate

Improvement of the investment climate is a long outstanding task that the concerned parties have called for repeatedly, the major aim of which is to make investment more attractive to foreign businessmen. Surveys show that one of the three major factors in the negativity

of Japanese enterprises toward investing in China is complaints about China's poor investment climate, which slows profitmaking. Many countries focus their efforts on improving their investment climates to attract foreign investment. While it should be pointed out that a decade of development has brought major improvements to China's investment climate, particularly that of our open coastal zone as opposed to what it was like before we began to reform and open up to the outside world, we also cannot ignore the fact that the investment climate of our landlocked hinterland is far from ideal, with poor infrastructures, power shortages, and transportation and communications difficulties. For instance, take Wuhan which, while being an especially large interior city that has always had a reputation as a "nine-province thoroughfare," is now having trouble living up to its name, because it has neither an international airport or a specialized foreign trade dock. With such an investment climate, we fear that it would be hard to insist that it vigorously develop "three-imports and one-compensation" trade that "depends on imported raw materials, exports, and large-scale foreign trade." Therefore, in order for our vast landlocked hinterland to vigorously develop highly opportunistic "three-imports and one-compensation" trade, it will first have to attract it by building up its local transportation infrastructure, in order to enhance its "import" and "export" capability. Of course, we must also not neglect the building of other infrastructures, such as power and communications.

In addition to the urgent need to enhance our "hard" investment climate, we must also endeavor to improve our "soft" investment climate.

In short, only with a double-barrelled approach combining "external attraction" with "internal allure" can we ensure that compensation trade will grow extensively throughout China in today's suitable climate and conditions, and thus, give added strength to China's economic development.

AGRICULTURE

Revised Regulations on Plant Quarantine

OW2205020092 Beijing XINHUA Domestic Service
in Chinese 1007 GMT 20 May 92

["State Council Decision on Revising 'The Plant Quarantine Regulations'" promulgated on 13 May 1992"]

[Text] Beijing, 20 May (XINHUA)—The Plant Quarantine Regulations were promulgated by the State Council on 3 January 1983. They were amended in accordance with the "State Council's Decision on Revising 'The Plant Quarantine Regulations'" and promulgated on 13 May 1992.

Article 1. These regulations are established to prevent the spread of dangerous diseases, insect pests, and weeds

that are injurious to plants; and to ensure the safety of agricultural and forestry production.

Article 2. The State Council's agriculture and forestry departments are in charge of the nation's plant quarantine work; agriculture and forestry departments of provinces, autonomous regions, and municipalities are in charge of plant quarantine work of the respective localities.

Article 3. Plant quarantine organs under agriculture and forestry departments at various levels of localities at and above the county level are responsible for carrying out the state's plant quarantine work.

Plant quarantine personnel should wear quarantine uniforms and badge while carrying out plant quarantine work at railway stations, airports, sea ports, warehouses, and other sites.

Article 4. All dangerous diseases, insect pests, and weeds originating in certain localities that can spread through plants or plant products should be targets for quarantine. The list of agricultural and forestry diseases, insect pests, and weeds to be inspected, and the list of plants and plant products that these regulations are applicable to are to be compiled by the State Council's agriculture and forestry departments. Agriculture and forestry departments of provinces, autonomous regions, and municipalities may compile a supplementary list according to local needs for local use, and should submit their lists to the State Council's agriculture and forestry departments for the record.

Article 5. Localities where plants have been found to need quarantine should be designated epidemic areas. These localities should be isolated and measures should be taken to eliminate the found diseases, insect pests, or weeds, in order to prevent them from spreading. If plant diseases, insect pests, or weeds have erupted in many localities, then localities that have not been affected should be declared protected areas.

Epidemic areas should be zoned according to the pattern of the spreading plant diseases, insect pests, and weeds; to local geographical and traffic conditions; and to the needs of isolation and elimination measures. Zoning of these areas should be strictly controlled.

In areas where plant diseases, insect pests, or weeds have erupted, local plant quarantine organs may station personnel at local joint road inspection stations or timber inspection stations. In case of serious epidemics, plant quarantine inspection stations may be set up with the approval of local provincial, autonomous regional, or municipal governments, to conduct plant quarantine work.

Article 6. Zoning of epidemic areas and protected areas is to be proposed by agriculture and forestry departments of respective provinces, autonomous regions, or municipalities; is to be approved by respective provincial, autonomous regional, or municipal governments; and is

to be reported to the State Council's agriculture and forestry departments for the record.

Zoning of epidemic areas and protected areas that extend to two or more provinces, autonomous regions, or municipalities is to be jointly proposed by agriculture and forestry departments of concerned provinces, autonomous regions, or municipalities, and is to be approved by the State Council's agriculture and forestry departments.

The procedures for changing and lifting the zoning of epidemic areas and protected areas are the same as those for establishing zoning.

Article 7. Transfer and shipping of plants and plant products, if they fall in one of the following categories, must be quarantined:

(1) Items that are on the list of plants and plant products for quarantine must be quarantined before they are shipped out of the county-level administrative district where epidemics have broken out.

(2) All kinds of seeds, seedlings, and reproduction materials, whether or not they are on the list of plants and plant products for quarantine and regardless of where they are shipped to, must be quarantined before they are shipped.

Article 8. If no targeted diseases are found in plants and plant products that must be quarantined in accordance with Article 7 of these regulations, quarantine certificates will be issued for these plants and plant products. If targeted diseases are found and if they can be completely removed through sterilization processes, consignors of the plants or plant products should sterilize the affected plants or plant products in a place designated by a plant quarantine organ. Sterilized plants and plant products will be issued quarantine certificates if they pass inspection; those that cannot be sterilized should be banned from being shipped.

The format of plant quarantine certificates is to be designed by the State Council's agriculture and forestry departments.

Packing materials, shipping equipment, storage sites, and warehouses that might be contaminated by targeted diseases should also be quarantined. If these packing materials, shipping equipment, storage sites, and warehouses are found to have been contaminated, they should be disposed by consignors in the way designated by a plant quarantine organ.

Expenses incurred by the delay of trucks or ships, by cargo moving, package opening, sampling, storage, and sterilization that are needed for conducting quarantine are to be borne by consignors.

Article 9. With respect to plants and plant products that must be quarantined in accordance with the provisions of Article 7 of the Regulations, transportation and postal departments shall undertake their transportation or

accept them for mailing on the basis of quarantine certificates. In the case of plants, quarantine certificates must accompany the goods at the time of transportation. The specific measures regarding this shall be drawn up by the agricultural and forestry departments under the State Council in cooperation with the the railway, communication, civil aviation, and postal departments.

Article 10. When plants and plant products that are required to be quarantined are transported between provinces, autonomous regions, and municipalities directly under the central government, the consignee must get prior approval of the quarantine department of the province, autonomous region, and municipality directly under the central government where he is in. He must ask the consignor for the necessary quarantine papers. The consignor must comply with the request and apply for a quarantine paper with the plant quarantine organ of the province, autonomous region, and municipality directly under the central government where he is. The plant quarantine organ of the province, autonomous region, and municipality directly under the central government where the consignee is in shall check the quarantine certificate for the plants and plant products being shipped in and may conduct reexamination if necessary.

The measures for quarantining plants and plant products shipped within provinces, autonomous regions, and municipalities directly under the central government shall be drawn up with their respective people's governments.

Article 11. Units propagating seeds, saplings, and other materials must carefully plan to establish bases for breeding seeds and saplings that do not require quarantining, as well as maternal plant bases. The seeds, saplings, and other breeding materials to be experimented and popularized must be those that do not require quarantining. Plant quarantine organs are to enforce quarantine in the producing areas.

Article 12. In introducing seeds and saplings from foreign countries, the unit that imports them shall complete the quarantine procedures by submitting an application to the plant quarantine organ of the province, autonomous region, and municipality directly under the central government where it is; however, when a unit under a State Council department in Beijing imports seeds and saplings from abroad, it must complete the quarantine procedures by submitting an application with a plant quarantine organ of the agricultural and forestry departments under the State Council. Specific measures shall be drawn up by the State Council agricultural and forestry departments.

Imported seeds, saplings, and other propagating materials which may be contaminated with a dangerous disease or insect pest must be trial planted in a confined place. They may be planted in various areas after they are observed by a plant quarantine organ to be free from dangerous diseases and insect pests.

Article 13. Research on plants that need to be quarantined conducted by agricultural and forestry schools and by experimental research units must not be conducted in a nonquarantine area. If teaching and scientific research require that research be conducted in a nonquarantine area, it must be approved by the agricultural and forestry departments under the State Council if the plants involved are required by them to be quarantined. It must be approved by the agricultural and forestry departments of a province, autonomous region, and municipality directly under the central government if the plants involved are required by them to be quarantined. In addition, strict measures shall be taken to prevent the spread of such plants.

Article 14. Upon discovering new plants to be quarantined and other dangerous diseases, insect pests, and weeds, plant quarantine organs must promptly study the situation and immediately report to the agricultural and forestry departments of a province, autonomous region, and municipality directly under the central government so that measures may be taken to eliminate them. In addition, the matter must be reported to the agricultural and forestry departments under the State Council.

Article 15. The condition of diseases shall be made public by the State Council's departments in charge of agriculture and forestry.

Article 16. When examining and eliminating diseases according to the provisions in the first section of Article 5 and in Article 14, expenses for emergency prevention and control and other allowances shall be appropriated from the annual plant and forestry protection fees or from state farm production fees in all provincial, autonomous regional, and municipal governments. The state shall subsidize the prevention and shall control expenses of extraordinary diseases as deemed necessary.

Article 17. Units and individuals having performed meritorious service in plant quarantine work shall be rewarded by the people's governments.

Article 18. Whoever commits one of the following acts shall be ordered by the plant quarantine agency for correction and may be given a fine; may be held responsible and pay for losses; and may be investigated by the judicial organ for criminal responsibilities when the act constitutes a crime:

- (1) Of failing to observe the provisions of these regulations in issuing plant quarantine certificates or engaging in fraudulent practices in reporting and inspecting plant diseases;
- (2) Of forging, tampering with, trading, or transferring plant quarantine certificates, stamps, marks, or seals;
- (3) Of failing to observe the provisions of these regulations in transporting, planting on a trial basis in quarantined areas, or producing plants and plant products which should be quarantined;

(4) Of violating the provisions of these regulations in opening the packing of, exchanging, or altering the specified purposes of plants and plant products without authorization; and

(5) Of violating the provisions of these regulations and causing the proliferation of diseases.

Whoever commits one of the first four acts listed above, but which does not constitute a crime, shall have the illegal income confiscated by the plant quarantine agency.

The plant quarantine agency is authorized to seal up for safekeeping, confiscate, destroy, or order the change of use of plants and plant products which are not transported in a manner prescribed in these regulations. Expenses for the destruction shall be borne by the individual responsible for the transportation.

Article 19. A plant quarantine officer, or relevant staff member of the transportation and postal departments, who practices favoritism and commits dereliction of duties while inspecting, transporting, or mailing plants and plant products shall be given administrative disciplinary action by his work unit or competent higher authorities; and shall be investigated by the judicial organ for criminal responsibilities when the violation constitutes a crime.

Article 20. When the person concerned refuses to obey an administrative penalty given by the plant quarantine agency, he may apply to its higher authorities for reconsideration within 15 days after receipt of the penalty notice; when the person concerned refuses to accept the decision of a reconsideration, he may file a lawsuit at the people's court within 15 days after receipt of the reconsideration decision. When the person involved fails to apply for reconsideration within the time limit, or to file a law suit and refuses to comply with the administrative penalty, the plant quarantine agency shall request the people's court for forcible execution of the penalty, or forcibly execute the penalty according to the law.

Article 21. In quarantining plants and plant products, the plant quarantine agency may collect a quarantine fee. Specific measures shall be worked out by the State Council's departments in charge of agriculture and forestry.

Article 22. Quarantine of imported and exported plants shall be conducted according to the provisions in the "Law for Quarantining Animals and Plants Entering and Leaving the PRC."

Article 23. Detailed rules for enforcing these regulations shall be formulated by the State Council's departments in charge of agriculture and forestry. All provinces, autonomous regions, and municipalities may adopt their own measures according to these regulations and measures and in the light of the reality in each locality.

Article 24. These regulations become effective upon promulgation. The "Trial Regulations for Quarantining

Domestic Plants" approved by the State Council and promulgated by the Ministry of Agriculture on 4 December 1957 are rescinded simultaneously.

State Council Decision on Plant Quarantine

OW2105132392 Beijing XINHUA Domestic Service
in Chinese 0816 GMT 20 May 92

[The State Council's Decision on Revising the "Regulations on Plant Quarantine"]

[Text] Beijing, 20 May (XINHUA)—The State Council has decided to revise and supplement the "Regulations on Plant Quarantine" as follows:

I. An additional paragraph has been included in Article 5 as the third paragraph. It reads: "Plant quarantine agencies may send personnel to local joint road inspection stations or timber inspection stations in areas where there is an outbreak of epidemic disease. In case of an extremely serious epidemic disease, plant quarantine inspection stations may be established with the approval of provincial, autonomous regional, and municipal people's governments to conduct plant quarantine work."

II. Item 1 of Article 7 has been revised to read: "Plants and plant products designated as subject to quarantine inspection must be so inspected before being shipped to administrative divisions at the county level where there is an outbreak of epidemic disease."

III. Article 10 has been revised to read: "In cases where provinces, autonomous regions, and municipalities directly under the central government ship among themselves plants and plant products that are subject to quarantine inspection as specified in Article 7 of these regulations, the units requesting the shipments must obtain the prior consent of plant quarantine agencies in the provinces, autonomous regions, and municipalities directly under the central government where they are located. Moreover, they must ask the shipping units to apply for inspection. As requested, the shipping units must file an inspection application with plant quarantine agencies in the provinces, autonomous regions, and municipalities directly under the central government where the units requesting the shipments are located shall examine the quarantine certificates and may conduct inspections anew if necessary."

"Provincial, autonomous regional, and municipal people's governments shall draw up quarantine procedures for plants and plant products shipped within their provinces, autonomous regions, and municipalities."

IV. An additional paragraph has been included in Article 12 as the first paragraph. It reads: "In bringing in seeds and nursery stocks from abroad, the importing units shall file an application with plant quarantine agencies in the provinces, autonomous regions, and municipalities

directly under the central government where they are located so as to complete quarantine-related procedures of examination and approval. Units under relevant State Council departments in Beijing, however, shall file an application with plant quarantine agencies affiliated with State Council departments in charge of agriculture and forestry to complete quarantine-related procedures of examination and approval when they import seeds and nursery stocks from abroad. The State Council departments in charge of agriculture and forestry shall work out specific measures in this respect."

V. An article has been added to the regulations as Article 15. It reads: "State Council departments in charge of agriculture and forestry shall publish information on epidemic disease."

VI. Article 15 has been changed to Article 16 and revised to read: "Pursuant to the first paragraph of Article 5 and Article 14 of these regulations, emergency prevention and treatment costs and subsidies needed for assessing and eliminating epidemic disease shall be allocated by provincial, autonomous regional, and municipal authorities from their annual plant and forestry protection funds or production funds for state farms. The state shall subsidize prevention and treatment costs for an extremely serious epidemic disease as it sees fit."

VII. Article 16 has been revised and divided into Articles 17, 18, 19, and 20 as follows:

1. "Article 17 Units and individuals who make notable achievements in plant quarantine work shall be awarded by people's governments."

2. "Article 18 Plant quarantine agencies shall order remedial actions and may impose fines under any of the following circumstances. Compensation shall be made in case of losses. If the circumstances constitute a crime, judicial organs shall file criminal charges in accordance with the law":

(a) Failing to obtain a plant quarantine certificate in accordance with these regulations or practicing fraud in the course of making quarantine declarations.

(b) Falsifying, altering, trading, or transferring plant quarantine documents, certificates, seals, markings, and stickers.

(c) Shipping or separating plants or plant products that are subject to quarantine inspection, and are grown or produced on a trial basis, without following the provisions outlined in these regulations.

(d) Opening packages containing plants and plant products, replacing the contents, or altering the prescribed uses of plants and plant products without authorization and in violation of these regulations.

(e) Causing a spread of epidemic disease in contravention of these regulations.

"Plant quarantine agencies may confiscate proceeds obtained by illegal means in any of the circumstances listed in Items a, b, c, and d in the above-mentioned paragraph provided the situation does not constitute a crime."

"Plant quarantine agencies are entitled to seal, impound, or destroy plants and plant products that are shipped in violation of these regulations. They are also entitled to order changes in the prescribed usage of such plants and plant products. The liable party shall bear the cost of destruction."

3. "Article 19 Plant quarantine personnel who practice favoritism, resort to fraud, and neglect their duties in plant quarantine work shall be given disciplinary actions by their units or higher competent organs. The same is true with relevant personnel in transportation and postal departments in handling the shipping and mailing of plants and plant products. Judicial organs shall file criminal charges if the action in question constitutes a crime."

4. "Article 20 If the party concerned is dissatisfied with the decision made by a plant quarantine agency to adopt disciplinary action, he may apply for a review with the agency's superior organ within 15 days of receiving a notice on the decision. If the party concerned is dissatisfied with any decision rendered after the review, he may file a lawsuit with a people's court within 15 days of receiving the decision. The plant quarantine agency may file an application with a people's court for compulsory enforcement of the decision, or proceed to enforce the decision by itself, if the party concerned has not applied for a review, filed a lawsuit, or honored the decision on disciplinary action within the prescribed period."

VIII. "Agricultural, animal husbandry, fishery, and forestry departments" mentioned in these regulations have been revised to "State Council departments in charge of agriculture and forestry."

Additionally, the wording and order of some clauses in these regulations have been revised and readjusted accordingly.

This decision will be implemented on 13 May 1992.

The "Regulations on Plant Quarantine" have been promulgated anew after being revised in accordance with this decision.

Water Resources Minister on Conservation Reform

OW2805081892 Beijing XINHUA Domestic Service in Chinese 1007 GMT 27 May 92

[By Renmin Ribao Reporter Jiang Xia (3068 0633); Xinhua Reporter Zhao Peng (6392 7720) and Trainee Zheng Weifu (6774 4850 1381)]

[Text] Beijing, 27 May (XINHUA)—Water Resources Minister Yang Zhenhuai said today that the main direction of water conservation reform in the future will be the gradual establishment of social investment mechanisms for water conservation projects, a vigorous promotion of the formation of economic entities in water conservation, and the commercialization of water conservation construction, management, and utilization of water resources.

At a national forum on reforming water conservation management that was held in Beijing yesterday, Yang Zhenhuai said that in the 1990's the state will concentrate on efforts to build a number of water conservancy projects that will have a great bearing on the national economy; efforts will also be made to step up the basic construction of farmland water conservation projects; there is also a plan to achieve new levels in water conservation construction by bringing about a net rise in farmland irrigation of over 80 million mu throughout the nation at the end of the Ninth Five-Year Plan period. He stressed the need for water conservancy departments to carry out reforms and change their functions over water conservation construction and management. He pointed out that one of the goals of water conservation reform is to gradually establish a social investment mechanism for water conservation construction and to ensure the proper implementation of the plan to encourage people in society to run water conservation projects. Various levels of government will still remain the leading investors in large-scale basic water conservation projects in the future; it is necessary for them to gradually raise the ratio of capital investment in basic water conservation projects and formulate favorable policies to encourage investment in water conservation works. Localities should also set up special funds for water conservation projects, provide more long-term and favorable loans for water conservation projects, raise the ratio of foreign investment capital, and explore fund-raising channels through the issuance of water conservation bonds and shares. Over 200 billion yuan of funds have been invested in water conservation projects since the founding of the republic, much of which was in the form of labor provided by the people; the mobilization of localities, departments, units, urban and rural masses, potential beneficiaries of water conservation projects, to help raise funds or contribute manpower for water conservation projects will become a trend in the future on promoting water conservation construction. It is necessary to properly implement policies designed to encourage people in society to be involved in water conservation projects; that they include policies to improve the collection of water and electric utilities fees, to "increase industrial production to make up for poor agricultural production," to "provide work as a form of disaster relief," and to collect fees for the construction, repair, and maintenance of dikes, from enterprises and farming households which benefit from utilizing those facilities.

Yang Zhenhuai said another important aspect for water conservation reform is the vigorous development of

economic entities and the establishment of a basic industry for water conservation. It is necessary to improve the present water conservation management system; devise an industrial policy by taking into consideration various types of water conservation industry; adopt different investment approaches and different management measures; perfect fee collection system; gradually form economic entities and through enterprise management turn them into economic entities with sound operation mechanisms and with the capability to accumulate funds and for self-development.

Yang Zhenhuai said that it is necessary to promote economic entities for water conservation through running both big river valley economic entities as well as small localized economic entities; we should exercise unified planning, management, development, command, and accounting over water resources in the river basin; and the development of one river basin should set the development of another one in motion. Water conservation departments in various provinces should, by taking local conditions into consideration, adapt themselves to the requirements of reform and opening and establish their own economic entities. It is necessary to turn water

conservation service systems in rural areas into economic entities. Grassroots water conservation units in counties, townships and villages should vigorously promote the establishment of a sound water conservation service system which is adapted to the requirement of the dual management system. It is also necessary to turn water conservation offices in townships and villages as well as management offices in irrigation zones into economic entities; they should strive to expand themselves through providing remunerative services. In promoting water conservation economic entities, Yang Zhenhuai pointed out the need to follow the principle of giving "ownership and management right to investors"; to define ownership right; and to protect investors' ownership right. Yang Zhenhuai said that reevaluation of the fixed assets of water conservation projects will be carried out and organs will be set up to better manage assets of water conservation projects. He also said that in order to induce people to invest in water conservation, experimentation with a share-holding system will be carried out on a trial basis. Investors' ownership right will be protected so as to get their active involvement in enterprise management.

CENTRAL-SOUTH REGION

Shenzhen Mayor on Funding Needs for Next Decade

*HK0405142192 Hong Kong CHING CHI JIH PAO
in Chinese 27 Apr 92 p 8*

[Report: "Shenzhen Mayor Zheng Liangyu Reveals That His City Is Expected To Raise More Than 100 Billion Yuan in Coming Decade"]

[Text] Shenzhen Mayor Zheng Liangyu indicated the other day that the Shenzhen Special Economic Zone [SEZ] will raise 80-100 billion yuan in the next 10 years of development. Furthermore, it will stress the raising of funds through issuance of shares and stocks as well as the distribution of B shares and debenture bonds in the international financial market. In addition, Shenzhen will further improve the building of a bonded market, a wholesale market, and supermarkets. It will also open an insurance management [bao li 0202 3810] company.

Speaking on the next decade of development in Shenzhen, Zheng Liangyu said that what concerns him most at the moment are the questions of capital and skilled personnel. He went on to say that after 12 years of reform and opening up, Shenzhen has formed and nurtured a relatively perfect capital market. Hence, he is confident about raising the necessary funds for the next decade of construction in Shenzhen. Estimates show that 80-100 billion yuan will be needed in the next decade of development in Shenzhen. Aside from raising the funds from its own banks and from the financial and stock markets, Shenzhen will also continue to welcome foreign investment. Henceforth, Shenzhen will open up further to foreign investments and allow foreign investors into businesses such as retail markets and the bonded means of production markets. It will also further relax controls over foreign-funded banks. At the same time, Shenzhen will pay more attention to fund-raising via the issuance of shares and stocks, attract more indirect investors, and attempt to allow listed companies issue B shares and debenture bonds on international financial markets.

On the question of skilled personnel needed in the next decade, Zheng Liangyu said that aside from current efforts to link up with mainland talent from the various universities and colleges, Shenzhen also plans to bring in more than 200 people with doctorate and post-graduate, as well as university, degrees from various disciplines this year. At the same time, it will take flexible measures to set up cooperative ties with experts and professors from different universities and colleges as well as research institutions to carry out work to develop science and technology in the SEZ. Furthermore, Shenzhen also plans to send a delegation to developed countries with a high concentration of overseas Chinese students to recruit people there.

On efforts to catch up with Asia's four little dragons, Zheng Liangyu said that this was the objective spelled out by Deng Xiaoping during his southern tour, but

Shenzhen is still studying ways and means to catch up with the four little dragons as well as the parameters to be used in assessing them. However, he indicated that while it will take 20 years for Guangdong to catch up with the four little dragons, judging from Shenzhen's current economic development, the latter does not need 20 years to catch up with the four little dragons of Asia.

Meanwhile, Shenzhen has come up with new ways to nurture, develop, and perfect all kinds of markets. These new measures include further perfection and development of the bonded means of production market by incorporating large numbers of means of production into the bonded means of production market, including three major materials used by the SEZ—petrochemical materials, paper, electronic spare parts—and other raw materials; expansion of the scope and units of operation; increase in the operation of cars, spare parts, gasoline, fuel, industrial raw material, and civilian use materials; and increase in the number of units engaged in the bonded means of production market. At the same time, consideration will be given to allowing foreign businesses to take part in the management of the bonded means of production market, as well as permitting Baoan County's "foreign-funded enterprises" and enterprises engaged in "processing with supplied materials, drawings, samples, and assembling with supplied parts and compensation trade" to make purchases from the bonded means of production market.

Shenzhen To Invest 80 Billion Yuan in Next Decade

*HK2905033292 Hong Kong TA KUNG PAO
in Chinese 28 May 92 p 2*

["Special dispatch" from Shenzhen by staff reporter Szeto Chiao (0674 1778 0829): "Shenzhen Plans To Invest 80 Billion Yuan in Capital Construction in Coming Decade"]

[Text] Shenzhen, 27 May (TA KUNG PAO)—According to its second 10-year economic development plan, by 2000 Shenzhen will develop into an international city with a population of 3 million; it will become one of the country's foreign trade and financial centers, as well as one of south China's central cities. This reporter learned the above at today's urban planning and construction news conference.

According to Shenzhen City Urban Planning and Construction Department, the investment of 23 billion yuan in the past 10 years has already enabled the city to develop from a border town of 30,000 people and 3 square km, to a new city of over 1 million people and 71 square km. In the second 10-year period, Shenzhen plans to invest 80-100 billion yuan, nearly four times the investment made in the first 10-year period, in building Futian urban center, which is 4 square km; Shenzhen Bay (and reclamation zone), which is 10.9 square km; and Nanshan center, which is 1.48 square km. At the same time, efforts will be made to improve the urban

districts which have already been built and to tackle the problems of traffic congestion, shortage of services, inadequate power supply, the shortage of cultural and educational facilities, and to link up locations to form a belt-shaped city by 2000.

At present, in all Shenzhen we can see roads being built everywhere, and people busy with seven buildings and one leveling. Roads, transportation, ports, checkpoints, water supply, and power supply have become the city's key construction projects. All sections of Shennan Avenue will be opened to traffic by the end of this year, except the 2.5 km in the central city district, which will be finished in the first half of next year. After building Shennan Avenue, the city will build Beihuan Avenue, which will become a completely sealed off expressway for cargo trucks. According to plan, the east section of Binhe Highway will be finished this year. All these will enable this border city to reduce the minimum traffic jams caused by cars coming from across the border. When the city's several flyovers are completed, they will play an important role in easing traffic jams.

Based on the spirit of Deng Xiaoping's southern tour speech which said Shenzhen must proceed faster, the city recently invested 7.775 billion yuan to add eight key construction projects to further improve the special economic zone's investment environment. This was revealed by the city government at this afternoon's news conference.

At the news conference, Song Zhiwang, chief of the city's construction bureau, said that, in 1992 key construction projects include water supply, power supply, and communications and that there are nine major projects

including power construction, water resources and water supply engineering, port building, road and border-crossing highways, the Pingnan Railway, the Luohu checkpoint railway station, posts and telecommunications, and sewage system, invested 8.295 billion yuan; and this year's planned investment is 2.208 billion yuan, and that up to the end of April, 278 million yuan was spent on the nine major projects, 13 percent of the planned investment in 1992.

He said that the city's key projects office recently looked into the situation and proposed that key construction projects should not be confined to the nine major basic facilities, but should include the building of industry, commerce and trade, and culture.

NORTHEAST REGION

Liaodong Shows Improved Economic Growth

92P30103 Beijing RENMIN RIBAO OVERSEAS
EDITION in Chinese 3 Jun 92 p 1

[Summary] Since it became an economic development zone in March 1988, Liaodong Peninsula's environment for investment has incrementally improved and foreign investors have come in an endless stream. At present, there are 421 foreign-invested enterprises in the entire zone with an investment volume of \$1.72 billion, which ranks first among China's development zones. The investors in the peninsula are mainly Hong Kong and Taiwan compatriots, as well as Overseas Chinese from the United States, Japan, Canada, Mongolia, the Philippines, and Brazil.

QUISHI on Unification, Opposing Division

*HK1704003092 Beijing QIUSHI in Chinese No 5,
1 Mar 92 pp 16-18, 27*

[Article by Zhu Xuefan (4281 1331 5400): "Uphold Unification, Oppose Division"]

[Text] Our great motherland is a multinational country with a long history of civilization. Although many disputes happened internally in the past, division is unpopular and, through the efforts of the great masses of the people, the country always ends up being unified. Generations after generations of all the nationalities of the Chinese nation have been living on the motherland since antiquity and, with industrious hands, created glorious history and splendid culture. Compatriots from both sides of the Taiwan Strait have a China heart with love for peace, the motherland, and the homeland and have the glorious tradition of consistently upholding unification and opposing division. This great centripetal force and unifying power are worth our Chinese nation's pride.

In recent years, during constant contacts with old friends coming back from Taiwan, I widely exchanged views on the issue of upholding unification and opposing division and reached a common understanding mainly on the following four aspects:

I. Taiwan Has Been an Inseparable Part of China's Sacred Territory Since Antiquity

Taiwan has been an inseparable part of the sacred territory of China since antiquity. The study of historical documents, unearthed cultural relics, nationality, language, religion, customs, and the kinship of people on both sides of the strait proves that it goes without saying that Taiwan is part of China and the people on both sides are blood-related compatriots.

Relations between Taiwan and the mainland go back to ancient times. As early as the time of the Qin and Han, some ancestors from Fujian sailed across the sea to immigrate to Taiwan. Historical books after the Qin and Han eras had clear records on Taiwan. The "Dongtei" of the Han Dynasty and "Yizhou" of the Three Kingdoms period refer to Taiwan. The Sui Dynasty dispatched personnel to Taiwan three times; in the times of the Tang and Song, mainland people immigrated to Taiwan to open up wasteland; and the Yuan Dynasty set up an "inspection department" in Penghu 650 years ago to administer Taiwan and the Penghus. In 1662, 330 years ago, Zheng Chenggong drove away Dutch invaders and recovered Taiwan. In 1638, the Qin Government set up the Taiwan Department with jurisdiction over three counties and was subordinate to Fujian Province. In 1885, Taiwan became a province. From that time onward, quite a number of maps published by foreign countries were marked with the legalized term of Taiwan as part of our country. That Taiwan is part of China has always been recognized by the majority of states and peoples in the world.

During the Sino-Japanese War of 1894-5, the Qin Government, yielding to pressure from Japan, signed the "Maguan Treaty" to cede Taiwan to Japan and people of the nation were filled with righteous indignation and rose up in protest. During the Japanese occupation of Taiwan, the people of Taiwan carried out unrelenting struggle against the invaders and many noble-minded patriots sacrificed their valuable lives for the return of Taiwan to the motherland. During World War II, the Governments of China, the United States, and Britain signed the "Cairo Declaration," in 1943, declaring unequivocally: "Territories which Japan has grabbed from China, such as Manchuria, Taiwan, and the Penghu Archipelago, should be returned to China." In 1945, the Chinese people won the anti-Japanese war, Taiwan was recovered and accepted by the then Guomindang [Kuomintang; KMT] government representing China and, from then on, Taiwan was back in the motherland's embrace.

Unfortunately, the two sides of the strait have long been in a state of man-made separation after New China's founding. Some foreign powers have attempted to separate Taiwan from China but their conspiracy did not succeed; all the Chinese people, including the people of Taiwan, have never changed their view that Taiwan is part of China. Great changes took place in the international situation in the 1970's. China and Japan set up diplomatic relations in 1972 and, in the "Joint Declaration," the two sides declared "Taiwan is an inseparable part of the territory of the PRC." The United States signed three "joint communiques" with our country, in 1972, 1978, 1982, all declaring "there is only one China and Taiwan is part of China." At present, a majority of countries in the world with diplomatic relations with our country have recognized that there is only one China and that the PRC Government is the sole legitimate government of China. This is where the tidal current goes and cannot be reversed by anyone.

II. Unification of the Motherland Is the Biggest Wish of All Chinese People, Including the People of Taiwan

Unification of the motherland has been the common wish of the whole Chinese nation since the Opium War. I talked about the old days with old friends coming back from Taiwan and we inevitably talked about our wish that we see the motherland's unification in our lifetime. All of us feel deeply that this situation should not last as the more than four decades of separation between Taiwan and the mainland have brought tremendous sufferings to compatriots on both sides. The realization of the motherland's peaceful unification is a glorious task entrusted by history to our generation. Whether living on Taiwan or the mainland, every Chinese has the unshakable responsibility for the motherland's reunification and the Chinese nation's revitalization.

As early as the First National KMT Congress, Mr. Sun Yat-sen saw that his revolutionary ideals could be realized only with the cooperation between the CPC and the KMT, he then set out to sincerely cooperate with the

CPC and laid the foundation for the Northern Expedition's victory. In less than two years after Dr. Sun Yat-sen's death, KMT authorities violated his teachings by creating division and destroying 10 years of good opportunity for peacefully building the country in the abyss of civil war, causing the invasion of Japanese imperialists step by step and bringing great misfortune to the country and nation. At the critical juncture of life and death for the nation and the country, the CPC, in consideration for the interests of the whole situation, reached a second cooperation with the KMT through various efforts and, through more than eight years of unrelenting struggle, won the anti-Japanese war. After the victory, the CPC continued to propose peaceful building of the country and the CPC and KMT signed the "Double 10 Accord." Surprisingly, not waiting for the ink to dry and regardless of the opposition by people inside and outside the KMT, KMT authorities flagrantly scrapped the accord and waged a civil war, costing the nation another great opportunity to peacefully build the country. KMT authorities, eating their own bitter food, fled to Taiwan, which resulted in today's situation of detente. The two times of cooperation between the CPC and the KMT in China's history brought hope and benefit to people of the whole country; KMT authorities twice sabotaged cooperation and created division, bringing disaster and pain to people of the whole country. Past experiences, if not forgotten, are a guide for the future and worth a deep thought by KMT authorities.

In "A Letter to Taiwan Compatriots" in 1979, the National People's Congress [NPC] Standing Committee solemnly declared the principles and policies to end the separation of the two sides of the strait and accomplish the great cause of the motherland's unification. From then on, under the joint efforts by compatriots from both sides, some great changes have taken place in the situation across the strait and calls by people on both sides for peaceful unification have been growing daily; from a long time of separation to exchanges, they are moving in a direction conducive to the motherland's unification. In recent years, more and more Taiwan compatriots have come to the mainland to visit relatives, to travel, and to engage in business; indirect "three communications" between the two sides have taken place; unofficial exchanges in culture, academic affairs, science and technology, and sports have developed in leaps and bounds; and the number of Taiwanese businessmen investing and setting up enterprises in the mainland have constantly increased. This is in accordance with the trend of the times and suits the Chinese nation's fundamental interests, strongly proving that the motherland's unification is everyone's wish, is a trend of development, and no one can prevent it.

III. In Accordance With the Realities, "One Country, Two Systems" Is the Most Realistic Formula for Accomplishing China's Peaceful Unification

In respect to history and reality and full consideration of the wishes of the people of Taiwan and the interests of

KMT authorities, Comrade Deng Xiaoping proposed the scientific formula of "one country, two systems" and received the appreciation of people of all sides. "One country, two systems" is a new development by Comrade Deng Xiaoping to the theory of Marxism on state and an unprecedented breakthrough. It differs from the federal system, and also, in some aspects, the traditional single system structure and is a new type of state power structure. To the outside, this is one country and domestically two social systems exist. After the motherland's unification, Taiwan, unlike the rest of the mainland provinces, will be a special administrative region and will enjoy some powers unique to Taiwan, but out of the reach of other provinces, autonomous regions, and municipalities, and will practice a social system different from that on the mainland. Taiwan practices the Three People's Principles and the mainland practices socialism, with neither side interfering in the other. Taiwan will enjoy independent administrative and judicial power; with an independent judicial system, the right of final appeal will not rest with Beijing. Taiwan may have its own army, provided it does not constitute a threat to the mainland. Taiwan's party, government, and army systems can be self-administered. The CPC and KMT will maintain a lasting cooperation and coexist and carry out supervision over each other. People from the Taiwan Government and other circles may take up leading posts in national political bodies and jointly discuss state affairs. In the field of economy, Taiwan's existing economic system will be maintained and it may have an independent financial budget; the mainland will impose no tax or duty at all on Taiwan. Taiwan may also maintain exchanges and cooperation with foreign countries in trade, economics, technology, and culture and enjoy a certain amount of power in foreign affairs. These CPC proposals are sincere, reasonable, and full of the spirit of conciliation and are also realistic. By combining the powers of economics and technology of the mainland and Taiwan, our country's comprehensive power can be greatly enhanced if Taiwanese authorities, by weighing the pros and cons, accept the formula of "one country, two systems" to accomplish peaceful unification with the mainland; the mainland can also supply rich resources and wider markets to Taiwan to promote prosperity on both sides and the living standard of Taiwan people can be improved more quickly. Obviously, if Taiwan accepts the "one country, two systems" policy to unite with the mainland, it will lose nothing; but what it will get will be the glory and benefit of being part of the great motherland.

Article 31 of the "PRC Constitution," passed in December 1982 by the Fifth Meeting of the Fifth NPC, stipulates: "The state has to set up special administrative regions when necessary." There have been constitutional guarantees for the question of Taiwan being a special administrative region of the PRC; the practice of "one country, two systems"; and for it to enjoy a huge degree of autonomy. I participated in that meeting and felt quite excited about this. "One country, two systems" is a major strategic CPC decision and not an expedient

measure. Therefore, I am full of confidence and hopes for the prospects of the motherland's unification.

What is worth mentioning is that the Chinese Government, in accordance with the "one country, two systems" policy, has successfully resolved the questions left over by history of the return of Hong Kong and Macao to the motherland and provided an example for solving the Taiwan question with the "one country, two systems" policy. There have been favorable international responses to this, which have been appreciated by Hong Kong and Macao compatriots, and has caught the attention of more and more compatriots from Taiwan, furthering common understanding and trust. Practices of several decades have proved that the policies of "peaceful unification and one country, two systems" are correct and will play a greater role in the future.

IV. Separation Actions by "Taiwan Independence" Elements Are Cast Aside by All Chinese People Who Love the Motherland

The 1990's is an important period to promote the motherland's peaceful unification. The current situation on both sides of the strait, in general, is developing in a direction conducive to the motherland's unification, which is the mainstream of history. Since the past year, however, "Taiwan independence" elements, both inside and outside Taiwan island, willing to take the risk of universal condemnation, have apparently run wild in their actions. In particular, the Democratic Progressive Party [DPP] flagrantly included the "Taiwan independence" article in its party constitution in an attempt to set up the so-called "Republic of Taiwan." In addition, other people have advocated joining the United Nations in the name of Taiwan and brazenly carried out evil actions of separating the motherland. This is something never allowed by people of the whole country, including the people of Taiwan.

Taiwan conducted the election of the second "National Congress" at the end of last year and, in a certain sense, it was a "mass vote" on unification and independence on the island. The DPP advocated "Taiwan independence" in its election platform but was defeated, which fully indicates that "Taiwan independence" is unpopular. At present, the state of mind of the majority of Taiwan

compatriots is for unification and against "independence." Many DPP people have but to admit that the proposal to set up a "Republic of Taiwan" is not recognized by the constituents and was the major factor for the election failure. The "Taiwan independence" elements' actions to separate the motherland have been opposed and condemned by patriots both domestically and overseas, and they have become more and more isolated. They have refused, however, to mend their behaviour and acted willfully by insisting on the reactionary stance of separating the motherland. Therefore, it is still an urgent and important task placed in front of people on both sides of the strait to safeguard unification and oppose division.

It should be pointed out that, although the reason that "Taiwan independence elements" can be so bold is related to behind-the-scene support by foreign powers, it is nevertheless linked with the Taiwan authorities' tolerance and connivance. An ancient teaching goes that to tolerate evil is to abet it; the Taiwan authorities should learn the lesson. In particular, Taiwan authorities, hesitating and adopting some weak measures, have greatly disappointed the people at a time when patriotic people from all over the world have resolutely opposed "Taiwan independence." Dr. Sun Yat-sen struggled during his lifetime to unify and revitalize the motherland. In his later years, for the sake of China's unification, he went north despite his illness and, in his deathbed, he constantly shouted "peace, struggle, save China"; this spirit of bending one's back to the task until one's dying day should be learned by us forever. We sincerely hope that the Taiwan authorities review Dr. Sun Yat-sen teaching of "in accordance with the trend of the world and meet the needs of the masses" and really shoulder up its own historic mission and place the nation's major interest in the primary position and uphold the stance of one China and oppose "Taiwan independence." On the one hand, they should adopt resolute measures to halt entirely the adverse current of "Taiwan independence" and safeguard Taiwan's stability and safety; on the other hand, they should be decisive and accept the CPC proposal and the "one country, two systems" policy, dispatch representatives at an early date to directly contact the CPC for talks, gradually reach the principle and agreement on the motherland's unification, and, hand in hand, jointly struggle to create the Chinese nation's glorious and splendid new history.

Trade Surplus With Hong Kong Viewed*OW2905091192 Taipei CNA in English 0750 GMT
29 May 92*

[Text] Taipei, May 29 (CNA)—Taiwan's nominal economic growth rate hit 11.37 percent in the first quarter of this year, but the inflation-adjusted quarterly growth was only 7.02 percent, a leading economic strategist reported Thursday.

Shirley Kuo, chairwoman of the Council for Economic Planning and Development, said the first quarter real economic growth rate was still marginally higher than the targeted 7 percent.

Kuo told a weekly cabinet meeting that the Taiwan economy has been on a steady rising track for 12 months and the trend is expected to continue through year's end.

Quoting the latest forecast by the Directorate General of Budget, Accounting and Statistics, Kuo said the national economy will grow 6.93 percent in real terms, with the gross national product (GNP) reaching NT\$5.32 trillion [new Taiwan dollars] (\$212.8 billion).

Kuo said domestic demand has been a prime force behind Taiwan's economic growth over the past year. Private investments have continued increasing since the second quarter of last year. In the first three months of 1992, private investments rose 6.67 percent in real terms from the year before.

With the global economy gaining momentum, Kuo said, Taiwan exports will remain brisk in the months ahead. "A continuing export boom will certainly contribute to our economic growth," she noted.

Backed by growing demand at home and abroad, the industrial production rose 5.9 percent in April as compared with the same month of 1991. The output of the manufacturing sector alone surged 6.1 percent. By industries, electronics registered the highest growth of 24 percent in April; followed by chemicals, 20 percent; food, 13 percent; and basic metals, 12 percent.

Exports hit a record high of \$7.25 billion in April, up 28.8 percent from the year-earlier level while imports rose 8.2 percent to \$5.79 billion, thus leaving a surplus of \$1.46 billion.

Kuo attributed the impressive growth mainly to increased shipments to Hong Kong and the United States.

Sales to Hong Kong, an entrepot in Taiwan-mainland China trade, jumped 65.4 percent to \$1.58 billion while imports from the British colony dropped 18.4 percent to a mere \$130 million. As a result, Taiwan enjoyed a surplus of \$1.44 billion with Hong Kong in April, nearly equal to its total monthly trade surplus.

In the first four months, Taiwan exports to Hong Kong picked up 39.8 percent from the same period of last year, and the Hong Kong share in Taiwan's total exports

surged from 14.9 percent to 17.8 percent. The ratio trailed behind America's and Europe's.

Taiwan registered a surplus of \$4.04 billion in its trade with Hong Kong between January and April. The amount was larger than Taiwan's total trade surplus of \$4.03 billion for the four-month period.

Kuo reported that Taiwan exports to the mainland transshipped via Hong Kong has increased steadily in recent years. In 1991, 38 percent of Taiwan exports to Hong Kong were transshipped to the mainland. By dollar's term, Taiwan exports to the mainland reached \$4.67 billion in 1991, up 42.4 percent from a year ago.

Editorial on Pros, Cons of Fourth Nuclear Plant*92CE0458B Taipei CHING-CHI JIH-PAO in Chinese
6 May 92 p 2*

[Editorial: "Thoughts on the Proposed Fourth Nuclear Plant"]

[Text] The government reported that it intends to present a demand to the Legislative Yuan in the immediate future to unfreeze the budget for the long-delayed fourth nuclear plant, and is then going to implement this plan.

Such a report could not help but engender many thoughts and feelings. Despite the fact that the fourth nuclear plant was originally 1 of 14 key construction projects, this construction program's third stage of its Central Steel project has been extended, its Taiwan U Hospital project has been extended, and others, such as the Nanhui Railway, have all been completed, while the fourth nuclear plant has remained in the planning stage. During this time, local governments have clearly and repeatedly expressed opposition, and the public and various environmental protection groups in Kungliao Township have held more than one protest and demonstration, even to the point of the occurrence of an unfortunate incident of a car being driven into and killing a policeman, while even more innumerable forums and lecture meetings have been held by ordinary academic and public civilian groups. On the other hand, we have watched Taiwan Power constantly hold explanation meetings, even to the point of vigorously advertising the fourth nuclear plant in the media, which was in sharp contrast to the above-mentioned clamor of protest.

As all of the necessary views and priorities have been expressed and publicized, now may be a good time to unemotionally, conscientiously, and rationally reconsider the fourth nuclear plant issue.

A review of the various views shows that development of nuclear power has the following pros:

1. As our power source development rate has been slow and off-course for years, Taiwan's power generator capability has certainly reached the point where it cannot meet demand. As our peak power demand every summer

often reaches our maximum capability, we are forced to cut power. In addition to the large power consumers, who are participants in the "possible power cut" plan, having to be prepared at all times for power cuts, ordinary citizens are also subject to "power cuts in rotation by district." The weather is the key factor. When there is more rain, hydropower generators are ample and there are less power cuts, and vice versa. It is certainly not overstating the case to say that "we depend on the weather."

2. As power is in short supply, we must at least either reduce demand or increase supply. While there are still many efforts that could be made to reduce demand, even if we made all of them, our sustained and rapid economic growth would seem to make it impossible to resolve our power shortage through reducing demand alone, so that we must sooner or later increase supply. Not only is our potential hydropower generation capability limited but, as a recent CHING-CHI JIH-PAO editorial pointed out, thermal power generation, whether with natural gas, oil, or coal, would produce large amounts of carbon dioxide, which would violate the current international agreement to keep the global emission of carbon dioxide in the year 2000 at the 1990 level. This leaves an appropriate development of nuclear power one of our only options.

3. Many experts point out that contemporary nuclear power plant design emphasizes safety, so that the danger rate is very low. While our current nuclear power generation accounts for about 38 percent of all of our power generation, which is slightly more than in Japan, it is much less than the 74 percent in France, so that we still have some development leeway.

Among those who oppose nuclear power, development has the following warranted cons:

1. While nuclear power plant design may be very safe, problems can still occur due to poor management. Even though the former Soviet Union's Chernobyl plant design was very backward, it was still quite safe, and the disaster occurred because of a series of man-made omissions. Taiwan's existing nuclear plants have experienced constant omissions and even sustained fires, which have sapped our confidence in Taiwan Power's management and administrative capability.

2. There is still no good way to deal with high-radiation nuclear power waste, which is now buried beneath nuclear power plants. The existence of such waste and nuclear power plant waste inventory difficulties, may very likely turn out-of-service nuclear plants into complete wastelands that can never again be used. This consideration leads to some doubt that the cost of nuclear power is actually lower than other forms of power generation. In fact, Taiwan Power's prediction that the cost of the fourth new nuclear power plant generator will be lower than adding installed capacity to existing nuclear plants is even more doubtful.

3. While reducing demand could not solve all problems, the existing demand reduction measures have not been positive enough. The new peak load management plan passed the other day by the Ministry of Economic Affairs' Oil Power Pricing Advisory Commission, in comparison to the existing method, is too small of a change and still not bold enough. In addition, the responsible authorities' unwillingness to raise power prices to reflect the external costs of power generation, leaves energy conservation an ineffective slogan with no real teeth.

4. The projected site of the fourth nuclear plant in a protected national coastal zone in the northeast corner of Taiwan is close to sandy beaches with a great tourist potential, and the plans to build two large drainage ditches to the sea would largely destroy the local landscape. This would be another significant social cost of building the fourth nuclear plant at its projected site.

5. The actual costs of building nuclear power plants have always far surpassed the projected budgets. The first nuclear plant had a projected budget of \$12.8 billion NT, but actually cost \$29.5 billion NT, the second nuclear plant had a projected budget of \$22 billion NT, but actually cost \$63 billion NT, and the third nuclear plant had a projected budget of \$35.8 billion NT, but actually cost \$97.4 billion NT. Even excluding legitimate factors, such as the appreciation of the NT dollar, such results lead to doubts about Taiwan Power's performance. While the fourth nuclear plant's projected budget is \$169.7 billion NT, questions remain about whether it will run overbudget, and what its actual power generation cost will be once it does?

While all of these pros and cons of nuclear power development warrant our attention, the most important reality is that power source development certainly cannot be put off any longer. Despite the pain that it will cause, our society will have to face up to this problem in the immediate future.

If the decision is to build the fourth nuclear plant, construction should begin in the near future. However, the responsible authorities and Taiwan Power are obligated to provide satisfactory explanations of the above-mentioned doubts, as well as to present plans to either reduce the social (including that to tourism) cost or upgrade their own operating capability.

If the decision is not to build, Taiwan Power should be charged with presenting as soon as possible substitute plans, such as adding installed capacity to existing nuclear plants or changing to power generation with natural gas. Moreover, once plans are made, they should begin to be implemented immediately.

While debate is hard to avoid in and necessary to the health of a democratic society, it should not be allowed to become a synonym for delay and indecision. An indecisive society will sooner or later face great pain, which will very likely render all current debate pale in comparison.

More Firms Expanding Mainland Operations

92P30104 Taipei CHING-CHI JIH-PAO in Chinese
29 May 92 p 2

[Summary] A recent survey conducted by the Chinese National Federation of Industries [CNFI] of more than 2,500 firms that have registered their mainland ventures with the government revealed that 49 percent are optimistic about prospects for their investments on the mainland. It revealed that 49 percent plan to increase their capital investment, 41 percent are undecided, 2.5 percent may reduce their investment, and about 3 percent may withdraw their capital. A similar survey conducted in March by the Taiwan Institute of Economic Research showed that 30.3 percent of Taiwan firms intended to increase their investment in the mainland, while 57.4 percent had no intention of increasing their investments. According to the CNFI, increased optimism about mainland investment prospects might be related to intensified propaganda on further reform and opening up launched recently by mainland authorities. Taiwan's President Enterprise Group has invested \$12.8 million to establish a fodder mill in Shanghai, a tomato processing plant in Xinjiang, and a food processing factory in Beijing. Group President Kao Ching-yuan said that President Enterprise will invest \$7 million to set up a dairy in Tianjin. Future investment plans include setting up instant noodle factories in Shanghai, Guangzhou, and Xiamen. Other Taiwan companies, including the Hsi Ling Electronics Corporation, the Yu Hsiang Electronics Company, and the Mei Li Electronics Corporation, are also expanding the scale of their operations on the mainland.

Impact of NT\$200 Billion in Bonds

92CE0373A Taipei CHO-YUEH [EXCELLENCE]
in Chinese No 3, 1 Mar 92 pp 192-194

[Article by Chang Wen-ch'uan (1728 2429 2938):
"Impact of NT\$200 Billion in Bond Investment"]

[Text] **Beginning To Take In With One Hand and Pass Out With the Other; Waging a Many-Sided Siege Against Speculation**

In the next few months, NT\$200 billion in bonds will be issued en masse. The stock market, worrying that its funding will be removed, has been steadily falling. The Central Bank, with the expectation that "releasing funds with one hand and issuing bonds with the other" will have the desired result, hopes, under the circumstances of not initiating a "money game," to be successful in selling the bonds so as to lighten the financial burden of national construction. But will things truly turn out as it wishes? Given this kind of manipulation by the financial authorities, what are the prospects this year for the stock market and the housing market?

Since the end of last year, the domestic stock market has fallen steadily, falling nearly a thousand points. Although it is said that part of the reason for this fall is

that government officials are constantly leaking information that the policy will be fruitless, there is also a very important factor, i.e., from 27 February to June, in the short space of a little over four months, the government will issue en masse NT\$200 billion in bonds, and in the next fiscal year, after June, will issue another NT\$250 billion in bonds. Investment specialists think that funds will really be taken out of the markets, and thus the investing public will lose confidence in the markets.

In the final analysis, how much impact will the bond issue of NT\$200 billion have? Or is it a case of the investors frightening themselves? This article thoroughly analyzes these questions from every angle.

How big, after all, is NT\$200 billion? Looked at as a quantity in itself, it is, of course, very frightening, but, speaking of the capital market as a whole, it really is not a high proportion.

As of the end of last year, the total amount of capital funds held by the Chinese Republic's financial organizations was NT\$10.2 trillion. By comparison, NT\$200 billion is only small change. Even if we deduct the total amount of foreign assets, NT\$2.64 trillion, as well the total amount of real estate assets, NT\$100 billion, the total value (not counting stocks) of the domestic financial assets is about NT\$7.5 trillion, of which NT\$200 billion is only 2.7 percent.

However, the true question is not the size of its proportion but what will be the drain on the entire financial system after the issuance of NT\$200 billion on bonds. In other words, what kind of capital will it draw on?

When the government issues the bonds, the public naturally must buy them with the funds on hand that can be used for such a purpose. In this respect, the funds held by the public that can immediately be put to use include NT\$480 billion in currency, NT\$270 billion in checking deposits, NT\$590 billion in current accounts, and NT\$910 billion in current savings accounts. The above current funds (i.e., M1B) total NT\$2.16 trillion, and if NT\$200 billion is taken out of this total to buy bonds there will still be enough and to spare.

In addition, there are more time deposit funds that can at any time be converted to current funds, and they include postal savings deposits, time deposits, time savings deposits, and foreign currency deposits. The amount of these reserves is even more startling, totaling NT\$5.2 trillion.

However, these time deposit funds are comparatively stable, and it is impossible to directly use them for transactions. Unless they bear a fairly large interest, it is impossible to convert them. Therefore, current funds must be drawn on for the purchase of the bond issue. However, they will be used for abnormal transactions, i.e., the funds will only be used for investment and speculation, and thus their scope will be greatly reduced. In particular, a very big proportion of these funds were originally kept on the stock market. Once they are

withdrawn, even if only a part of them is withdrawn, the stock market will suffer a major blow. Therefore, viewed from this angle, there is reason for the people in the market to worry.

However, the above deduction ignores an important fact, i.e., in the past several months, after the interest rate was repeatedly lowered, there has been a tendency for time deposit funds to gradually flow into current funds. In the one month of December last year alone, current deposits together with checking deposits as well as currency increased more than NT\$160 billion, while time deposits increased only NT\$86 billion. In fact, if it were not for the increase of deposits caused by the favorable balance of trade, there would have been almost no increase in the time deposits.

The questions now are: When funds change from time deposits to current deposits, what is the amount and rate that the funds will change into bonds? Will a gap appear during this process? The answers to these questions are provided by the interest rate, and the "bell striker" is the Central Bank.

From a detailed analysis of the recent behavior and attitude of the financial authorities, one discovers that the wishful thinking they have indulged in is: with the right hand they will hold down the interest rate and release funds; with the left hand they will immediately issue bonds and take back the same funds. Since this is the case, they can both sell the government bonds at a low interest rate and thereby lighten the financial burden of the national construction program, and avoid the recurrence of the situation in which there was an inundation of floating capital and a vogue for playing money games. This wishful thinking was indulged in with a "clang," and up to now the entire "play" has been performed according to the Central Bank's "script." According to a report, when NT\$40 billion in central government construction bonds were earmarked for sale, on the market NT\$232.8 billion strongly participated in the rush to buy them. This caused the average interest rate on the bonds to be set at only 7.862 percent, approximately equal to the bank's set business interest rate for one year's time deposit, and even as much as 8.5 percent lower than the interest rate on the face value of the bonds. This caused the national treasury to obtain an additional revenue of NT\$860 million. Therefore, the Central Bank "expressed its great satisfaction" with the result of the sale and "expressed its high optimism" about the issuance of a little over NT\$150 billion in bonds in the coming several months.

From this report one can discern that the Central Bank is highly satisfied with the results of the "play" that it is "directing." What is more, after the Spring Festival the stock market was hit so hard that it could not raise its head, and I believe that the Central Bank was even more pleased with itself over this. But will the future situation go entirely according to its calculations?

Actually, if we make a further analysis it is not difficult to discover what the Central Bank is now doing. Perhaps it has already taken the extreme simplicity of things in the original script and made complex things that the market function could resolve by itself; and has even put itself in a situation in which it is difficult to advance or withdraw and in which it must maintain its balance on a tightrope.

The wishful thinking of the financial authorities is: with the right hand they will lower the interest rate and release funds; with the left hand they will immediately issue bonds and take back the same funds. Thus, they can both sell government bonds at a low interest rate and thereby lighten the financial burden of the national construction program, and avoid a recurrence of the situation in which there was an inundation of floating capital and a vogue for playing money games.

Just think, the level of the interest rate in this bond sale is already almost that of the interest rate on time deposits, and therefore it should be the lowest limit of bond interest rate because if it were made lower no one would be interested in buying the bonds. Only if the Central Bank, carrying the thing through without regard for the consequences, again lowers the business interest rate will the amount of time deposit funds lost be greater and will stopping "money games" be more difficult. Once the interest rate is lower than 6 or 7 percent, after deducting for inflation the real profit rate will only be about 3 percent. With this level of profit making, Taiwan's investors, I fear, will not be interested, and they will probably rather take their money and play the stock market, or even borrow money to engage in land speculation.

Therefore, the bond interest rate cannot be further lowered, for if it were no one would want the bonds and there would also be a big side effect. However, following the increase in the number of bonds issued there will naturally be formed force pulling upward the market's interest rate. At this time the Central Bank will be put in the awkward situation of having to decide whether to let the interest rate rise. If it does so, this will cause the bonds to be bought ahead of time, and the loss in capital gains will undoubtedly show that the government's propaganda of advocating that bonds are the best investment become a case of "slapping one's own face." Also, when people see the trend of interest rates rising, will be even more hesitant to buy the bonds. The result will be that the bond interest rate must make a triple jump and be adjusted upward to the highest level before the bonds can draw people into the market, and the losses sustained by those who bought the bonds before others will be more disastrous.

Therefore, the Central Bank is now on a tightrope, and the level of the bond interest rate is at the critical point. No matter whether it goes down or up, it will touch off a vicious circle or chain reaction that will cause a big shock.

Now the Central Bank's best—and also only—way is to maintain the interest rate at this level and get the matter over with by finishing the sale of the bonds. However, no matter whether in theory or reality, it is not too likely that this ideal can be attained. In particular, the people of Taiwan have a strong propensity for gambling, and are absolutely not patient about gaining a little fixed interest. Hearing the rustle of leaves in the wind, they will immediately follow up like a swarm of bees, making the market more unstable.

Therefore, the Central Bank will back off and seek the next way, which could be to first seek to control the interest rate and not seek to control the amount of currency, because in economic theory and practice one can seek to control either quantity or price, but cannot control both at the same time.

If the Central Bank does not want to disturb the level of the interest rate and use the bonds to take back market funds, it must first release more than several times this amount into the market before it can do so. Therefore, this year there will still be much more market funds sent out than taken back. In these months, because of the reduction of funds caused by the bond issue, they will be quickly replenished, which is really a cause for more anxiety about the problem of funds being taken out than the people in the market worry about.

Generally speaking, this year in both the stock market and the real estate market, there will appear a situation in which the number of transactions is large but the rise in prices is small. Moreover, there could appear other forms of the money game, like the black market. Until all the bonds are sold there will not be a very big change in this situation.

But do not rejoice too soon. The increase in market funds does not indicate an opportunity for a big rise in prices. Because the financial authorities have time and again declared that they are absolutely unwilling to see again a rekindling of money games, they will certainly

employ other methods to stop it. One method is to use psychological warfare propaganda and financial and tax policies to suppress them. But the most fundamental method is to increase, as fast as possible, the amount of funds supplied to the market, and in this respect the stock market and the real estate market really face the same problem.

In the past five years the total number of stocks on the domestic stock market has increased by about three times. In addition, the stocks held by directors and supervisors of corporations, official stocks, and party stocks—all of which were originally frozen but later released in a constant stream—at a conservative estimate of the number of shares in circulation, in these five years, increased by at least six to 10 times. In the past two years, investors have rushed to get rid of stock in high-priced durable goods. In addition, the large number of shares created by public projects and the development of mountain slope land and suburban land has put heavy pressure on supply. Also, since policies tend to be fruitless and suppressive, although the supply of funds is plentiful, it is quite difficult to raise prices.

There will, of course, be increases and decreases on the individual markets, but generally speaking there will appear in this year's stock market and real estate market a situation in which there are a large number of transactions but small rises in prices. In addition, there could also appear other forms of the money game, like the black market.

This situation will obtain until almost all the bonds are sold, and then there will be a very big change in it. The period of time will be approximately from the second half of this year to the beginning of next year. If by this time the amount of these supplies is not yet digested, or if the businessmen are blindly optimistic and make new plans after which they wait until there is a change in the wind direction of the Central Bank's policy, there will be another cold winter in the investment markets where supply exceeds demand.

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